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Nation's Business®

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THE NATION'S BUSINESS

David Packard has been put in charge of a presidential panel to propose reforms in the defense procurement system.

PHOTO: HEWLETT-PACKARD

COVER STORY

Debbi and Randy Fields of Mrs. Fields Cookies: Their business thrives, and so does their marriage.

PHOTO: PATRICK McDOWELL

DEPARTMENTS

MANAGING YOUR BUSINESS

Steinway holds its own against imports, even though foreign manufacturers have three quarters of the American market.

PHOTO: ANDREA BRIZZI

PEOPLE/PERSONAL

Leo Lauzen says he is a happy man because he helps other business people stay in business.

PHOTO: ROBERT FLISCHEL—PICTURE GROUP

TECHNOLOGY

Automated teller machines are one major way banks are taking advantage of the technological revolution.

PHOTO: T. MICHAEL KEZA

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JAMES J. KILPATRICK

Looking Out For No. 1

Congress went into its August recess in an altogether foul humor. A budget resolution had been delivered, but this was a baby that almost no one loved. House Democrats were sore at the Senate. Senate Republicans were sore at the President.

The President, who never is sore at anybody, was nonetheless distressed in spirit. By golly, he had promised not to approve an increase in taxes, and he was sorry, but dawgonnit, he just couldn't go back on that promise. So the President went off to his ranch to continue his convalescence, and everybody in Congress went grumpily home. The latest estimate on the deficit for fiscal '86 is $172 billion.

Let me try to be helpful. An idea has been percolating for quite some time, and I have found it flawless. My amendment to every bill proposing to reduce spending or to shift the burden of taxes would be inserted immediately after the bill's title. It would provide a new Section 1. All subsequent sections would be renumbered accordingly. This is the text:

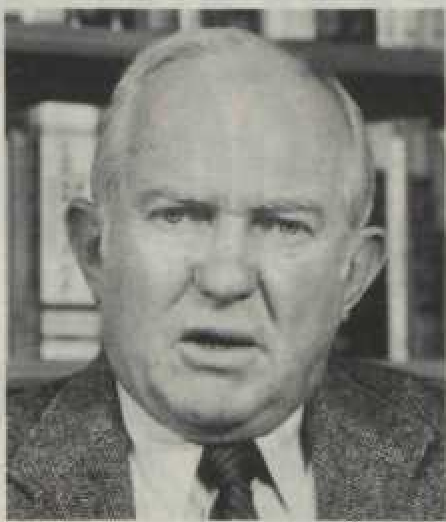
"Sec. 1. The laws of human nature shall be, and they are hereby, repealed."

There! Is it not an amendment to command admiration? It is brief. It has no wasted word. Any child, or for that matter any congressman, may understand it. With adoption of this master key to financial responsibility, every door would be unlocked. Let me cite a few examples of what would be accomplished.

Early on in the budget talks, the administration proposed to reduce community development grants, for a saving of $400 million; to end urban development action grants, for a saving of $600 million; and to end the so-called impact aid to communities whose schools are heavily affected by the presence of federal installations. This last proposition would have saved $500 million.

Together they might have cut federal spending by $1.5 billion. It is not much. But it is something. Yet scarcely had the proposals been announced than the nation's mayors were descending upon the capital in veritable swarms. "We appreciate the necessity for reducing the deficits," they said. "Indeed," they said, "we share that concern." But healthy cities, they said, "are vital to a prosperous nation." Therefore, they said, you must not cut us. You must cut somebody else. And their eyes misted over, and two or three came down with the sniffles. Thus do the laws of human nature enter the arena.

And they all said as one: Don't cut me, cut somebody else.



It was the same story in the matter of guaranteed student loans. The administration proposed to limit these loans to $4,000 per student per year and, further, to limit them to students from families having incomes of no more than $32,500.

Howls of outrage arose from $50,000 families. One such parent, having just written the President to demand that deficits be reduced, wrote his senator to say that the idea of restricting student loans was inconceivable. After all, he said, the future of our free society depends upon the education of its young. The administration caved in. The budget director proposed new limits: $8,000 per loan, $60,000 family income. To this proposition the college presidents replied in a statement: Such revised limits amounted to "a dagger pointed at the heart of American higher education." And this again was human nature at work.

When it was proposed to cut funds that might support grand opera, the opera people were heard from. The fat lady, they said, would never sing if the cuts were approved. The President thought it might be useful to save $800 million by limiting to 5,500 the number of grants for medical research. He proposed that we stop adding to the strategic petroleum reserve, which now has 489 million barrels, for a saving of $5.3 billion. He proposed to make major reforms in farm subsidies and agricultural credit. And you can imagine what happened. Because we had not adopted a new Section 1, repealing the laws of human nature, we heard at pathetic length from medical schools, oil suppliers and half the population of Iowa, Kansas and Nebraska.

And they all said as one: Don't cut me, cut somebody else.

When it was proposed to end subsidies for Amtrak, the railroad people flew into Washington to protest. The administration wanted to save $300 million over five years in grants to libraries. But the librarians all cried, "hush!" Another idea was to put an end to the Small Business Administration. But we were told, eloquently if not convincingly, that without SBA loans the very backbone of America would crumble.

Dan Rostenkowski, chairman of House Ways and Means, insists that he will have a tax reform bill ready for floor consideration before the snow flies. It may be. Such sunny optimism speaks well of the gentleman's kindly character. But one such reform has to do with a minimum tax on corporations; another has to do with an increase in the tax on capital gains; yet another has to do with limiting deductions for business lunches. There are 500 such changes proposed. Some are of high degree, some of low, but all have this in common: The people who benefit from existing provisions see no justice in having their benefits reduced or removed.

So it goes, as Kurt Vonnegut is so fond of observing. So it will always go, and so will the deficits appallingly mount, until an amendment inserting a new Section 1 is adopted. Do I hear a cry of vote! Vote! NB

LETTERS

Striking A Balance

I have the notion that the way to encourage Congress to mend its ways and assure a balanced budget is to substitute the carrot for the stick, borrowing from the practice in the private sector of rewarding accomplishment by the payment of a bonus to those responsible for achieving a profit.

The idea is a very simple one. It would provide that for every fiscal year in which the federal budget is in balance, every member of the Senate and the House of Representatives serving during that fiscal year would receive a tax-free bonus of $1 million. At most this would be a payout of $535 million for each year the budget was in balance, which would indeed be a bargain for the taxpayer.

This plan is manifestly in the public interest. It would establish a sound and fiscally conservative motivation for members of Congress to balance the budget, replacing today's motivation, which is to curry favor with the recipients of federal largess by voting more funds for federal programs.

E.J. Faulkner
Honorary Chairman
Woodmen Accident & Life Company
Lincoln, Nebr.

I read with considerable interest "A Long Overdue Amendment" [Editorials, July] and "An Off-Balancing Act" [James J. Kilpatrick, July]. As you may know, the National Governors' Association earlier this year adopted a bipartisan resolution urging Congress to adopt a constitutional amendment mandating a balanced federal budget and providing the President with a line-item veto, both tools available to an overwhelming majority of state governments.

During the last 25 years, when the federal government has balanced its budget only once, state governments have matched revenues and expenditures each year, because we had no choice. Isn't it long since past the time when such a requirement should be adopted at the federal level?

Dick Thornburgh
Governor
Commonwealth of Pennsylvania
Harrisburg

Kilpatrick exposes the balanced budget amendment for what it is: a sham. We have had this type of constitutional requirement in Michigan for years, and all it produces is voodoo accounting practices, such as not paying bills the last month of the fiscal year or delaying tax refunds. When will we ever learn that fiscal problems can be solved only by raising taxes or reducing spending?

Robert P. Dick
Chairman
Oxford Savings Bank
Oxford, Mich.

Kilpatrick is correct in his analysis of the balanced budget amendment. The fault, however, lies in the language of the proposed amendment, not in the concept behind it.

A better amendment would have only one section. It would provide that "the expenditures of the federal government for any fiscal year shall not exceed the total revenues of the second preceding fiscal year." Thus, when the Speaker of the House took pen in hand, he would be forced to write, "For fiscal year 1986, outlays [the revenues for fiscal 1984]."

Charlie K. Coleman
Actuary
Royal Neighbors of America
Rock Island, Ill.

Who Were, uh, Was Correct?

I want to call your attention to a mistake in grammar appearing on the cover of the August issue. The word "none" is a contraction of "no one" and takes the singular in a verb. Therefore, "none" should be used with "is" rather

LETTERS

than "are," as you used it in the lower-right hand corner of the cover. This is a very common error.
Douglas G. Bannerman
Washington

Editor's note: We heard from several readers who thought they had caught us in a breach of good grammar, but, in fact, the experts agree with NATION'S BUSINESS. H.W. Fowler, in the classic

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LETTERS

Dictionary of English Usage, says: "It is a mistake to suppose [none] is singular only and must at all costs be followed by singular verbs. . . . Plural construction is commoner." Theodore M. Bernstein, in *The Careful Writer*, suggests that "none" should be regarded as a plural pronoun "unless there is a definite reason to regard it as a singular." That was not the case on our cover, since the word embraced the three persons shown there.

In All Honesty

Re: "A Driving Force Goes His Own Way" [July].

I am still grappling with Arthur Jones' self-proclaimed honesty. How can one systematically acquire and discard a succession of "exceedingly beautiful" and very young wives (his present wife is his fifth) and yet describe himself as "honest beyond your ability to comprehend the term"?

He's right. I can't.

Peter Kushkowski
Haddam, Conn.

The Proof Of The Picking

Re: "How Companies Avoid Mistakes In Hiring" [June].

I am trying to imagine a symphony orchestra, professional basketball team or group of secretaries that could be chosen successfully by handwriting analysis, color tests, computer-scored 5-minute tests and electronic voice analysis. Why would any organization choose managers using such unreliable techniques?

Despite the claims of various publishers or merchandisers, the objective and scientific literature on the selection of people, whether in hiring or promoting, overflows with negative evaluations of all the techniques you describe. Today's smart money is on evaluating skill and competency through demonstrated ability in realistic job situations or simulations. Although more expensive, such realistic "auditions" increase accurate prediction of behavior 10 to 20 times over the gimmick techniques.

Ed Yager
Park City, Utah

Working Out Works

I could not agree more with the statements made by advocates of fitness in "How Fitness Works Out" [July].

I turned 50 on July 13. I have worked for the Crown Zellerbach Corporation for 24 years. During that time, I have not missed a day of work because of illness. I have played basketball since I was a sophomore in high school. I currently play two to three times a week if I am not traveling. I believe firmly that people are better able to cope with the pressures of business if they have a physical release.

Dean E. Bidwell
Resident Manager
Crown Advanced Films
Greensburg, Ind.

The Not-So-Dark Ages

Re: "Basking in the Sunburst" [James J. Kilpatrick, August].

Kilpatrick's ignorance of history is appalling. He writes that following ancient Greece and Rome, there was in Europe "for almost a thousand years, relatively speaking," nothing happening, only "darkness." This was the period of the Middle Ages, the Reformation, the flowering of the Christian faith—and nothing happened?

John Lofton
Columnist
The Washington Times
Washington

Innovators

By Sharon Nelton

Teaching The Customers They Are Not Always Right

ILLUSTRATIONS: WILLIAM COULTER

The customer is always right? Not when he is abusing your employes, says Doug Greene, founder of New Hope Communications, the New Hope, Pa., firm that publishes *Natural Foods Merchandiser* and *Delicious* magazines.

When a customer or supplier gets offensive, employes of the $4 million-a-year enterprise are instructed to say, "One of our company policies is that we only do business with pleasant people. We've found that the solution to every problem comes from the spirit of cooperation. I am sure we can come up with something that can make both of us happy, but we must approach this in a very cooperative manner."

Three of New Hope's five biggest customers were turned away at one time or another because of rudeness, Greene says. "And within 24 hours, every one of them turned around and called and apologized. We're very close with them today."

This unorthodox entrepreneur is convinced people don't want to be uncivil, "but they are rude because they think they have to be to get their point of view across or get something done." At his company, Greene says, "It's almost like we're taking a responsibility to train people how not to be rude."

He likens it to giving a gift. He recalls one company president who, with tears in his eyes, came up to him a year after being reprimanded and said, "You really caused me to look at some things in my life, and I just want to tell you how much I appreciate it."

Greene won't say that either customer or employe is always right. "But to have an atmosphere of friendliness and cooperation *is* always right. It's still human beings working together trying to make the world a better place."

Counsel For Consultants

Some people fantasize about creating the perfect restaurant. Others, however, dream of becoming consultants. And why not? You can set your own hours, work at home if you choose, and, best of all, be your own boss.

A great number of Americans are fulfilling that fantasy. The total dollar volume for consulting services in the United States is difficult to measure. But business consulting has become an estimated $3 billion-a-year niche that is growing 20 percent annually, according to William A. Cohen.

Cohen is director of the Small Business Institute at California State University at Los Angeles. He is also a business consultant and author of *How To Make It Big as a Consultant* ($17.95), fresh this month from AMACOM, a division of the American Management Association.

In one of the most readable chapters he describes ways to get clients. Among the most interesting:

• Speaking before groups. They give you exposure, he says. "Make sure your speech is short, explicit, to the point and relevant to your audience. At the end of your speech, let your listeners know how to contact you for additional information."

• Giving seminars. "I know of several consultants who depend solely on this method to promote their practice; the fees they receive for giving the seminar are only a secondary consideration," says Cohen.

• Sending newsletters. Cohen once headed an organization that was hiring people every few months. He avoided using headhunters, however, because he thought they were too expensive.

But one day he received a friendly letter from a recruiter, along with a free subscription to his newsletter. Cohen found the newsletter impressive. A few months later, when he needed to make a hire, he decided to try the recruiter. Says Cohen: "That newsletter earned that headhunter a $7,500 fee on that one placement and much future business as well."

Visionary thinking, nontraditional responses and unconventional ideas that work from today's best and brightest business people.

Purr-fect Follow-Up

A lot of professionals—doctors, lawyers, accountants and the like—have resisted advertising and marketing their services, even though a 1977 U.S. Supreme Court decision asserted their legal right to do so. Many still sniff and say it is unethical or undignified.

Not veterinarian Matthew J. Toia, who says that a combination of Yellow Pages and newspaper advertising has built his South Weymouth (Mass.) Animal Care Center from $200,000 in revenues in 1980 to an expected $500,000 this year.

But he says that advertising doesn't stop with the ad. Follow-up is vital. Toia recognizes that a pet is "a person" to his clients. Pets are part of the family and, he says, "we treat them as such."

Toia gives a "Brave Puppy Award" and a "Brave Kitty Award" to pets that take their shots without crying. Says he: "The clients love it."

Another Kind Of Business Lunch

If you are like Daniel R. Scoggin, CEO of the Dallas-based T.G.I. Friday's restaurant chain, you try to leave your work at the office at closing time.

"When you come home, you're tired," he says. "You've solved all the problems that you want to solve that day, and you're interested in relaxing or reading a book." Trouble is, your spouse ends up trying to tiptoe around, looking for the right time to sit down and discuss household matters or the kids or to catch up on what is going on with your business. But there just never is a right time.

Scoggin hit on a solution when he and a buddy were fishing in Idaho a couple of years ago, and the friend was bemoaning a lack of communication with his wife.

"I said, 'What I would do is set up a business lunch with her as frequently as you need to solve these problems,'" Scoggin recalls. "And he said, 'Geez, that's a great idea! Do you and your wife do that?' I said 'We're starting just the minute I get home from this fishing trip.'"

Scoggin and wife Linda have "business lunches" with each other at least once a month now, he reports. "You're both emotionally and mentally set to go through it, and the quality of what you do is just amazing."

But the plan almost fizzled with the first lunch, when Linda announced that she was pregnant with their second child.

"I told her we're not going to have room in the house if we keep having these lunches," says Scoggin.

P.S. It was a girl. Tess Marie, born Nov. 12, 1984.

Cranking Up

Feeling unproductive? Take a tip from Ed Gresham, president of Electronic Realty Associates, a Shawnee Mission, Kans., real estate franchising firm better known as ERA.

Like most executives, he makes a list of things to do each day, but he takes list-making one step further.

"I always start off with something I can accomplish in a relatively short time because I know that one of the ways you turn yourself on is by accomplishing something. When you do it and realize the result, it makes you feel good."

Another Tactic

Of course, there are those days when none of the items on your "things to do" list gets crossed off. There have been too many interruptions and too many fires to put out. Result: You feel frustrated or maybe even guilty.

One way to avoid that, suggests Stanley S. Gryskiewicz, director of the creativity development division at the Center for Creative Leadership in Greensboro, N.C., is to add another item to your list: "unplanned activities."

"Then at the end of the day, you can say, 'I did that!'" he says.

Off The Record

The president of the company who told us this did not want us to reveal his name.

He built a nationwide direct mail organization that generates more than $50 million a year in sales and, he says, "It's a company run by women." When he wanted a chief of operations, he named a woman, and many of the dealerships through which the company sells are run by women.

Men, he says, spend too much time and energy "jockeying and vying for position."

Truth In Advertising

If there were an award for honesty in employment advertising, we'd nominate C&W Seafood, a year-around, open-air seafood market in Dranesville, Va.

According to C&W's help wanted ads, the pay is excellent and the atmosphere is rewarding, "if you can survive the training, the weather, the public, the owners, the smell and the hours."

From The Editor

Hans Baum, Nation's Business art director, makes a point to (from left) Editor Robert Gray and Vignelli Associates' Michael Bierut and Massimo Vignelli. They are preparing the current issue of the magazine, the first to reflect a major graphics redesign and editorial improvements.

PHOTO: DAVID WOODDELL

The issue of NATION'S BUSINESS you are now holding is a historic one. It marks the implementation of the most extensive graphics redesign in the 73 years that we have been publishing. Along with this redesign, we are introducing editorial changes that include new features and major improvements in the way editorial content is organized and presented.

These changes make NATION'S BUSINESS still more contemporary, more relevant and more useful to its readers, most of whom run smaller to medium-sized businesses.

Information they need to do a better job has been processed and packaged in a crisp, easy-to-read format that makes NATION'S BUSINESS the most effective all-around information resource for all business.

The graphics redesign was executed by Vignelli Associates, of New York City, whose work has gained wide recognition for the manner in which it can be both contemporary and classic. The firm's many prestigious honors include the 1982 Medal of the American Institute of Graphic Arts and a Presidential Award for Design Excellence conferred this year by President Reagan in recognition of the firm's work on National Park Service publications.

Key features of the NATION'S BUSINESS redesign include the new cover treatment, which gives maximum impact to both the illustration and type, and the strong, bold graphic elements that combine with the editorial content to make the magazine a more readable, more useful information package.

The range of that information has been increased through such editorial additions as "The Nation's Business," which brings together a report on key Washington developments affecting business, an economic analysis for use in business planning and a special report on small business.

Other new features are "Innovators," in which imaginative business people tell how they meet challenges; "Making It," profiles of successful entrepreneurs; "Franchising," an insider's view of this explosive growth area; and "Direct Line," which answers readers' questions on entrepreneurship, government actions and business technology.

The bottom line is this: The graphics redesign and editorial changes introduced in this issue reflect our total commitment to readers that NATION'S BUSINESS, the oldest of all the major business magazines, will remain as contemporary as the newest business.

Robert T. Gray

Robert T. Gray

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NYE/PM/1

Andy Kozinn needed a 7-year fixed-rate $3 million loan for refinancing and renovation and a 3-year hold on principal payments.

It took some doing, but his Shirt Sleeve Banker made it happen.

Ensign Bank's John Gilpatric (right) worked in his shirt sleeves to get Andy Kozinn (left) the loan he needed to sell more suits.

Andy Kozinn had already bought the old Lord & Taylor building as a new home for his 70-year-old Saint Laurie Ltd. when he came to Ensign Bank looking for a most unconventional loan. And he needed it fast.

Ensign's Shirt Sleeve Bankers made a "people judgment": they liked dealing with young owner-management, they liked the neighborhood Andy had chosen and they liked being involved in a first class restoration. So they went to work on credit approval and the exact terms of the deal. It took a lot of doing but late that Friday night, they called Andy with an okay on his loan. Less than a week later he had his money. And now, a year after the grand opening, sales are up 10% and Saint Laurie is a major presence in the New York market for high-quality business suits.

A Shirt Sleeve Banker never forgets that he's in business to make loans happen, no matter how much effort it takes. So talk to a Shirt Sleeve Banker about your commercial real estate project. There's a good chance he can roll up his sleeves and work out your loan, too.

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THE NATION'S BUSINESS

Business Outlook

No more $44 light bulbs for the Pentagon? Happy holidays for retailers.

Defense Buying Reforms Ahead

Cleaning up Pentagon procurement is industrialist David Packard's task. Defense Secretary Caspar Weinberger (right) welcomes any help he can get.

PHOTO HEWLETT-PACKARD

PHOTO T. MICHAEL KEZA

The procedures used by the federal government to buy weapons and other supplies for the military may be in for their most extensive overhaul since George Washington ordered Baron Friedrich von Steuben to put the Continental Army on a sounder financial footing.

Potential changes would mean new rules for the tens of thousands of companies, employing more than 5 million people, that will receive $153 billion in contract awards from the Defense Department this year.

The pressure for change will come from three principal sources:

- President Reagan's new Commission on Defense Management, headed by electronics pioneer David Packard, a former deputy secretary of Defense, which will propose extensive reforms.
- Legislation now pending in Congress to put new controls on defense spending practices.
- Defense Secretary Caspar Weinberger's internal reforms, including his recent creation of a procurement "czar," charged with taming runaway weapons costs.

The current surge of interest in defense procurement has its origins in two major developments, one highly visible, the other not so obvious. Recent disclosure that the military was paying $644 for toilet seats and $44 for light bulbs, among other questionable buying practices, was a principal factor in generating public demand for reform.

The more significant defense spending issue is how to handle the future of the military buildup launched by President Reagan when he assumed office in 1981.

This buildup is nearing the end of its first phase, and the administration and Congress will soon be balancing the remaining needs of the armed services and the impact of military spending on the federal deficit.

The administration will be hoping to achieve two goals—continued cost-effective rearmament at spending levels that ease pressures on the deficit. That will not be easy. Buying weapons systems, which include many parts and tools of the type that caused embarrassment at the Pentagon when prices became known, can involve thousands of people throughout the legislative and executive branches.

During the process, members of Congress often fight the Pentagon and each other over proposals the lawmakers view as helping or hurting their states and districts.

The individual military services battle each other for funds. Contractors are often caught in the middle of a game that one senior defense firm executive says is usually "10 percent business and 90 percent politics." It is a helter-skelter process, and Defense Department officials blame it for many of their current image problems.

Ironically, says David Packard, many of the problems in defense contracting that appear to reflect ill upon Weinberger were, in fact, uncovered by the Secretary's staff as a result of Weinberger's own internal cleanup campaign.

Indeed, Cap "The Knife" Weinberger and his dogged inspector general, Joseph Sherick, have instituted numerous managerial reforms over the past five years, including rewards for whistleblowing, a bigger Pentagon auditor corps and a team of 600 "competition advocates" to stimulate cost-saving bidding practices in the private sector. Weinberger has made cost reform a public issue.

The can of worms Weinberger opened brought a public outcry that soon manifested itself in the form of congressional outcry.

About 91 pages of procurement reform proposals are pending before Congress.

Many of the legislatively offered reforms, Weinberger told NATION'S BUSINESS, "are not very workable."

"They are going to require in many cases artificial barriers designed to produce competition," he says. "We have increased competition drastically from 30 to 70 percent, and we want a lot more."

The Pentagon wants competition more than Congress does, Weinberger says, noting that often members are less than zealous in judging the compet-

Business Outlook

Things are looking up. Forecasters see plenty of room for growth and many signs that the economy will get stronger.

Defense Buying

itiveness of contract proposals from firms in their own districts.

Rep. William Nichols (D-Ala.), a staunch Pentagon supporter, was aghast to learn from congressional investigators that *all* of the seven major defense firms he asked them to study routinely submitted improper claims for payment.

But Nichols himself says members of Congress too frequently react to constituent outcry by overlegislating. "The public becomes incensed, so the tendency is to pass a law when the problem ought to have been straightened out by the Defense Department." As chairman of the Armed Services Committee's investigations panel, Nichols has looked deeply into the issue.

"We found evidence of mistakes in billing practices," he says, "but we found no evidence of specific criminal intent to defraud the government. Defense CEOs who come to see me are good businessmen and pretty ethical."

Nichols and others have offered reforms that are aimed at solving problems in four areas:

- "Revolving door" legislation would prevent high-ranking defense officials from taking jobs with firms whose contracts they approved until two years after they leave public office.
- Other bills will reduce costs by requiring competitive bidding for most contracts.
- Should-cost studies would be required to break down costs of major contract proposals to show prices of labor, materials, overhead, etc.
- Allowable-costs bills strive to force contractors to be more accountable for false claims they submit to the Pentagon. Some would impose prison sentences on contractors who make false claims; others would levy fines.

Congressional procurement reforms—and those instituted by Weinberger—target specific abuses, but President Reagan and Packard see more reforms as the long-range answer to a problem Reagan says threatens "the security of our nation."

Economic Revival On Tap

The economy is coming to life, says Beryl Sprinkel, chairman of the President's Council of Economic Advisers: "The odds are pointing toward a good sales season at Christmas."

Other indicators that 14 months of sluggish growth are ending, Sprinkel says, are a year-long spurt in the supply of money ready for consumers to spend and a strong Wall Street showing in recent months.

The amount of cash in checking and other transaction-type accounts in the last 12 months grew two-thirds faster than it did the year before. "A change in the pattern of money growth gets reflected in the general pattern of spending," says Sprinkel.

Sprinkel says falling interest rates, a healthy ratio of inventories to sales and continued moderate price inflation are lagging indicators that would be headed up if the economy were about to drop into a recession.

"I like to look at what have been bellwether industries—housing and autos," Sprinkel says. "Historically, they have started an expansion. And they both look fairly good."

The Council of Economic Advisers' Beryl Sprinkel says bellwether industries are pointing toward an economic expansion.

PHOTO: NICK BLOOM

Room For Growth

Consumer spending has plenty of room to grow, say economists at New York's Morgan Guaranty Trust Company. The key to sales levels in housing and transportation is financing costs, and real interest rates—adjusted for inflation—are twice as high as they have been typically. The amount of liquid financial assets consumers hold is up. Morgan economists think that relatively small declines in interest rates will send consumer spending in housing and transportation up again.

Auto sales per thousand of the driving-age population are 16 percent below the peak pace set in 1978 and 21 percent below the level of 1973. Housing starts in the early '70s exceeded today's levels by substantial margins.

Shift In Tax Pitch

Many are wondering why the administration has changed its pitch in selling tax reform. Four years ago, the 23 percent cut in marginal tax rates was heralded for its prospective effect on economic growth. This time around, fairness and equity are the reasons given for a 19 percent cut in the top marginal tax rate.

Why the difference in approach? Treasury Secretary James A. Baker III explains: "We think that there will be added growth, but the minute the Secretary of the Treasury gives you a number, it becomes a target for a lot of people who don't want tax reform." Politically, the administration is caught between those who say growth estimates are too high and those who say they are too low.

The Council of Economic Advisers now has a study in the works to remedy the absence of reliable estimates.

—Duncan Wright, Sales Promotion Mgr., Home and Professional Group.

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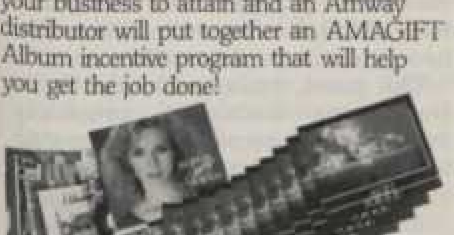

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THE NATION'S BUSINESS

Washington Roundup

Back On The Road For Tax Reform

White House Chief of Staff Donald Regan: Ready to "pursue a vigorous course on tax reform."

PHOTO: TIM HATLEY

President Reagan will resume active campaigning on behalf of his tax reform plan after Labor Day, under current planning at the White House.

Chief of Staff Donald Regan says the recent surge of opposition to the far-reaching proposals should not be interpreted as evidence the plan is dead.

He told an audience of business executives at the U.S. Chamber of Commerce that it's just a case of the opponents having their turn at bat.

Under the current timetable, he said, "the next phase begins after Labor Day. We are right on schedule."

Regan said the President, who underwent cancer surgery in July, will be ready to "pursue a very vigorous course on tax reform."

The tax-writing committees of Congress are working on the legislation, but it has become highly uncertain that a bill can be passed this year.

There was optimistic talk in Congress and the White House, when the tax plan was introduced last May, that a bill would be cleared by the end of this year. That feeling was reinforced by the warm reception President Reagan received in a grass-roots campaign for his plan. Much of that support, however, was limited to broad endorsement of the concepts of "fairness" and "simplification," and by suggestions that those goals would be achieved at the expense of the "special interests."

But the White House was unable to maintain that momentum as one group after another, representing all shades of political opinion, lined up against various provisions.

President Reagan's surgery and convalescence further slowed action. But the likelihood of prompt action on tax reform had started to fade before his hospitalization.

A prolonged midsummer controversy over a 1986 budget resolution consumed so much congressional effort that tax reform lost ground as a top priority.

The challenge now facing the White House is to rekindle the degree of public interest in the issue that existed when the tax reform plan was first announced in the spring, a task that even its most ardent supporters admit will not be easy.

The Line-Item Veto

Supporters of a plan for a test of line-item veto authority have not given up hopes for action this year, despite loss of a key test in the Senate.

They failed—by only two votes in their best showing—to break a filibuster preventing a vote on the proposal.

With line-item veto authority, President Reagan could reject specific items in the voluminous appropriations bills that he must now approve or turn down in their entirety.

Sen. Mack Mattingly (R-Ga.), chief sponsor of line-item veto legislation in the Senate, said in the wake of the defeat that he would attempt to attach his proposal to spending bills that come up in the Senate this fall.

He was encouraged by the fact that 58 members of the Senate supported his efforts to shut off the filibuster and bring the bill to a vote. A total of 60 is needed to end a filibuster.

Supporters of the line-item veto approach say Congress has proven itself unable to make significant spending reductions on its own and needs the type of outside pressure the President could impose with selective vetoes.

As with any veto, his rejection of a line item could be overridden by Congress.

The veto authority plan has run into even more serious trouble in the House than it did in the Senate. Rep. Bill Archer (R-Tex.) failed in two attempts to have the Rules Committee clear line-item veto bills for floor action.

That panel, dominated by the liberal Democratic leadership, originally turned down a proposal for a two-year test on the line-item veto on all spending bills.

Archer later offered a modified plan to give President Reagan the selective veto power for one spending bill in one year, but he lost again.

Noting the continuing refusal of the House to approve "the ultimate budget tool"—the balanced budget amendment—Archer said "it is imperative that we at least adopt the line-item veto as a budget trimming tool."

Surgery does not slow President Reagan's resolve to press for tax reform. He plans to come out swinging after Labor Day.

A Little More Daylight

Daylight saving time would begin earlier in the year and end later, under terms of a bill approved by the House Committee on Energy and Commerce.

Clocks would be advanced an hour on the first Sunday of April and set back on the first Sunday of November.

Daylight saving time now begins on the last Sunday in April and ends on the last Sunday in October.

The next steps on the proposal for change are a vote in the full House, followed by action in the Senate, where Republicans Slade Gorton of Washington and Pete Wilson of California have introduced a corresponding bill.

In urging support of the measure, Gorton said the added hours of daylight in early spring would reduce crime and traffic fatalities, save energy and "conform the start of daylight saving time to the reality of most people's lives and

preferences." He also told the Senate: "Many marketing, retail and recreational organizations have concluded that extended daylight saving time would benefit their businesses and promote outdoor activities."

In the past—for example, after the 1973 Arab oil embargo—congressional interest in daylight saving focused on energy use.

Threat To Workers' Health Insurance

The ability of employers to provide health insurance for workers is facing a double threat, an expert warns.

Eric J. Oxfeld, manager of health care issues for the U.S. Chamber of Commerce, adds that smaller firms are particularly vulnerable. He cites these developments:

- A wide range of proposals, including those in President Reagan's tax reform plan, to make part of employer-paid health benefits taxable income to employes.
- A recent U.S. Supreme Court decision that frees states to dictate terms of coverage in health plans financed through insurance.

Oxfeld says: "The prospect of direct government intervention in benefit plan design has arisen simultaneously with—and sometimes as an integral component of—the drive to tax health benefits."

The High Court held that the right of states to regulate insurance took precedence over the Employee Retirement Income Security Act.

As a result of the court decision in *Metropolitan Life Insurance Company v. Massachusetts*, states are now free to impose coverage requirements on plans financed through insurance arrangements. Such plans cover two thirds of insured workers.

While states consider coverage requirements as a result of the *Metropolitan* decision, Congress might also mandate various types of protection.

"Unless Congress rejects these proposals and acts to reverse the ruling in the *Metropolitan* case, recent hard-won successes in reining in health care costs will prove fleeting," Oxfeld says.

Smaller firms would be especially hard hit, he said, if additional cost burdens were added to existing problems.

Capitol Update

Social Security Costs

The Social Security System is marking the 50th anniversary of passage of legislation that created it. Attention is focused now, as it was in 1935, on levels of future costs. The program was launched in two phases, with payroll taxes first imposed in 1937 to build a fund to finance benefits that began a few years later. Until 1949, the combined tax on employers and employes was $60. Today it's $5,583.

Clustered Mail Boxes

A U.S. Postal Service union is fighting the agency on the issue of outdoor cluster boxes, which allow one-stop delivery of mail to several residences in the same neighborhood.

Postal officials adopted the cluster box concept to cope with continuing expansion of delivery routes. Critics argue, however, that all postal patrons are entitled to home delivery.

The dispute has reached Congress, where a pending bill would ban the cluster boxes. The National Association of Letter Carriers is among the supporters of the measure.

Hydropower Priority

A provision of a 65-year-old law is being activated for the first time, causing controversy in the process. The Federal Power Act of 1920 gave government-owned systems preference for the original 50-year licenses to generate electricity through the use of waterpower.

Most of the licenses, however, eventually went to privately owned utilities. More than 230 come up for renewal in the decade ending in 1993.

The question facing regulators is whether the preference for original licenses also applies to renewals.

Industry sources say shifting all licenses now held by privately owned companies to government-operated entities would add more than $5 billion to consumers' bills.

Business is urging Congress to pass legislation to eliminate any suggestion of preference.

The new U.S. trade representative will be trying to stem the protectionist tide in Congress, beginning with a bill that has powerful backers.

Free Trade Under Fire

New Special Trade Representative Clayton Yeutter: A rough welcome to his job.

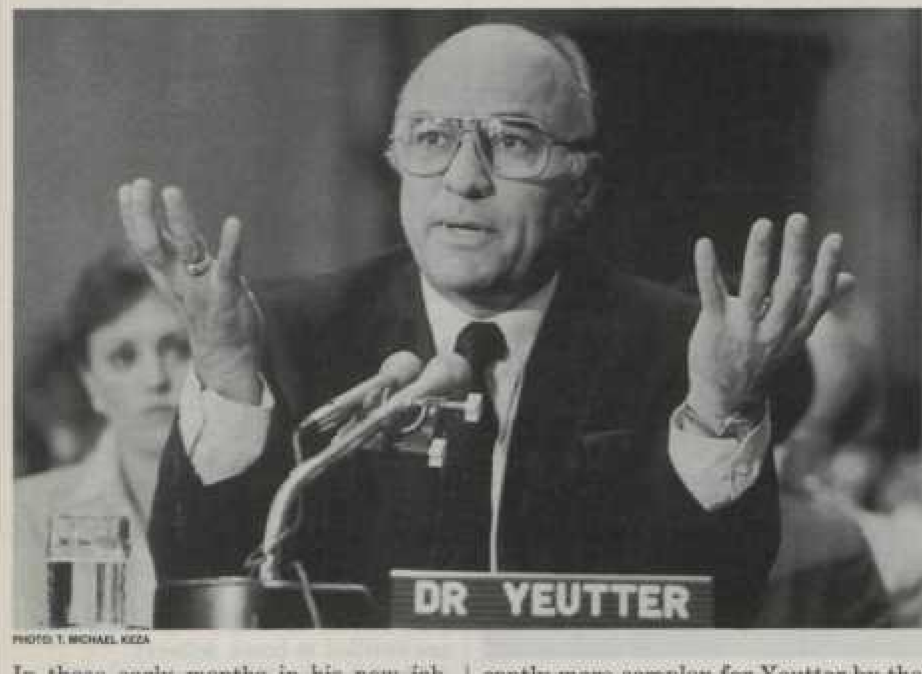

PHOTO: T. MICHAEL KEZA

In these early months in his new job, Special Trade Representative Clayton Yeutter must deal with a head-on congressional challenge to the administration's trade policies.

He has come aboard in a period of growing controversy over the administration's free trade approach.

Protectionist sentiment is on the rise in Congress as imports threaten constituents' jobs, and foreign barriers to U.S. goods work against U.S. exports.

Expectations that the U.S. trade deficit could range from $140 billion to $160 billion this year, compared with $123 billion last year, have intensified protectionist sentiment.

Yeutter is in the same difficult position as his predecessor, William Brock, now Secretary of Labor. The trade representative must protect administration policy favoring market access, head off protectionist moves from Congress and other quarters, and put constant pressure on U.S. trading partners to keep them from protectionist moves that would buttress the case for the American protectionist bloc.

The challenge has been made significantly more complex for Yeutter by the introduction of a tough trade bill that has the backing of some key members of the House. The measure would, among other things, impose a 25 percent duty on goods from countries that are identified as maintaining unfair barriers to U.S. goods. The initial targets would be Japan, Brazil, South Korea and Taiwan.

Sponsors of the measure include Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee, Richard Gephardt (D-Mo.), chairman of the House Democratic Caucus and also a member of Ways and Means, and Lloyd Bentsen (D-Tex.), a senior member of the Senate Finance Committee.

Rostenkowski plans to begin hearings on the measure after Labor Day. Yeutter will be in the forefront of White House opposition to the measure, which is among many pending bills that would set up trade barriers in varying degrees.

The 25 percent duty bill is considered a particular threat by the White House, however, because of its sponsorship by the powerful committee chairman.

Of Gershwins We Sing

The U.S. Treasury Department would issue Congressional Gold Medals honoring George and Ira Gershwin, if the Senate approves a resolution already passed by the House.

George Gershwin is cited in the resolution as the composer of works, including "Rhapsody in Blue" and "An American in Paris," that are acclaimed as both popular and classical music. Also listed are the accomplishments of Ira Gershwin, the first lyricist to win a Pulitzer Prize (for "Of Thee I Sing").

The resolution describes the Gershwins as "giants of the American music scene" who "individually and jointly created music which is undeniably American and which is universally admired." George Gershwin died in 1937 and his brother in 1983.

The occasion for the proposal to honor the brothers is the 50th anniversary year of the first performance of "Porgy and Bess," on which they collaborated. Thus far, Congress has awarded only two gold medals for achievements in music—to George M. Cohan and Irving Berlin.

George (left) and Ira Gershwin: Gold Medals from Congress.

PHOTO: BETTMANN NEWSPHOTOS

THE NATION'S BUSINESS

Small Business Report

By Mary-Margaret Wantuck

Investment Firms Want To Go Private

Small business investment companies want to reduce the federal role in their affairs by starting a corporation to function as a capital bank. An SBIC now gets part of its funds from the Federal Financing Bank, if the Small Business Administration approves. The funds are dependent on often-skimpy congressional appropriations.

Rep. Parren Mitchell (D-Md.), chairmen of the House Small Business Committee, has introduced a bill to create a Corporation for Small Business Investment, to be known as COSBI. It would be governed by a 15-member board with five members appointed by the President and the remainder elected by stockholders. Sen. Lowell Weicker (R-Conn.), chairman of the Senate Small Business Committee, will introduce companion legislation soon.

SBICs, created in 1958, have to put up a minimum of $500,000 in private funds to be licensed by the SBA. Sixty percent of that capital must be committed to investment in small businesses before SBICs can draw on funds set aside for them.

Depending on Congress for appropriations has been "hit or miss for a long time—a roller coaster for us," says Peter McNeish, executive vice president of the National Association of Small Business Investment Companies.

There are more than 500 SBICs and MESBICs (minority enterprise small business investment companies that invest in small firms owned by socially or economically disadvantaged persons). Their accomplishments are impressive. Since 1958, they have invested $6 billion in 70,000 small businesses. That average investment of $150,000 has filled the gap left by traditional venture capital funds, whose average is $5 million.

The industry needs a continuous and stable source of funds, says McNeish. "We are long-term investors, and to do proper planning on investments, we have to know the funds will be there."

The new corporation would probably attract a number of new entrants into the industry, says McNeish. "A lot more people would be willing to come in and organize, capitalize and start up an SBIC because the funds flow problem would be eliminated and the regulatory burden eased," he says.

To gain recognition in the capital markets, COSBI would buy $1 billion of long-term SBIC debentures held by the Federal Financing Bank. In turn, the Treasury would have the authority to purchase up to $1 billion of COSBI securities if the corporation ever faced insolvency and the Secretary of the Treasury thought it best to intervene. But once the corporation proved its competence, this provision could be removed, according to NASBIC.

In the interim though, conferring quasi agency status upon the corporation would make it an "excellent credit risk in the capital markets," and give it "favorable interest rates in a range between U.S. Treasury bills and corporate AAAs," notes Patrick Owen Burns, chairman of the American Association of MESBICs.

Peter McNeish says SBICs are tired of depending on the government for their capital and want to set up their own funds-supplying corporation.

PHOTO: JUDITH E. SLOAN

Many groups within the small business community, including the Small Business Legislative Council and the U.S. Chamber of Commerce's Small Business Council, endorse the corporation concept. There are several advantages to the privatization proposal, according to the U.S. Chamber:

- A $1 billion reduction in the deficit through the purchase of debentures from the Federal Financing Bank.
- A phasing out of SBA's administrative support system for the SBIC program, which now costs $4 million annually.
- Greater access for small firms to the capital markets and an increase in the flow of growth capital to them.
- Acknowledging small business as the leader in privatizing government functions.

The COSBI proposal has gotten a good reception at the SBA and on Capitol Hill, although progress on the measure has been stalled by the budget and tax issues. JoAnn Price, president of the American Association of MESBICs, hopes that action resumes soon. "The time is ripe to privatize SBICs," she says. Price warns that if "something is not done within the next year or two toward this end, the industry could be facing some really uncertain times with each new budget scenario."

A Mutual Fund That Thinks Small

Not all mutual funds are interested in investing only in new high tech, rapid growth companies. Pioneer Scout, started last July as a separate portfolio under the Pioneer Mutual Fund, buys stock in established and solid small firms that have considerable growth potential. The market capitalization of these businesses ranges from $5 million to $200 million.

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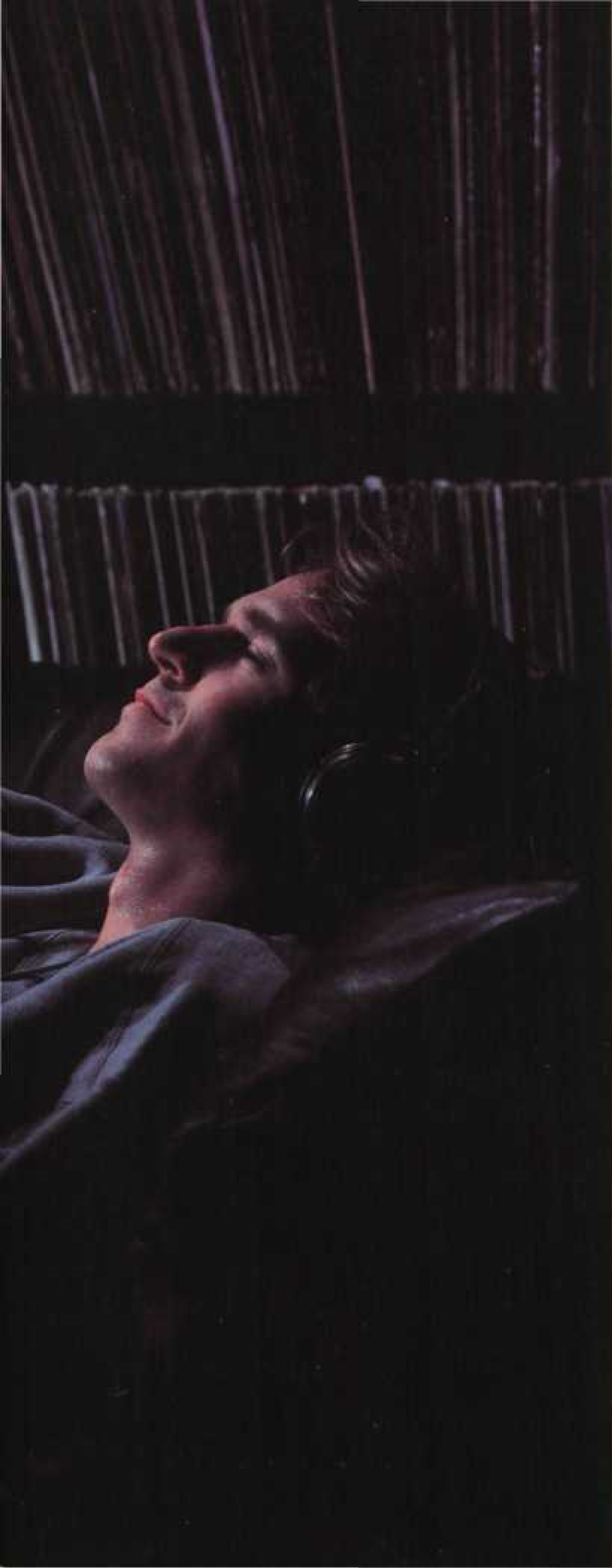

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Developments of interest to small firms, from financing to computers, from services to sources of help.

companies in the Scout portfolio, making it about 82 percent invested with current net assets of $145 million. The oldest firm is Pratt & Lambert, a manufacturer of paint, industrial adhesives and coatings that started in Buffalo, N.Y., in 1849. McFarland Energy in Santa Fe Springs, Calif., founded in 1972, is the youngest.

"Many of these companies are too small to capture the attention of the large Wall Street brokerage houses," says John Carey, who runs the Scout portfolio.

"And some—like the West Company, which makes pharmaceutical packaging and rubber stoppers—are in rather unfashionable areas."

This does not deter Scout. It bases its choices on whether a company's management and products can be easily understood, and on whether it has a good balance sheet, is fairly stable and passes the stock analysis test.

Scout companies, says Carey, are often specialized, carving out an exclusive product niche for themselves. Dranetz Technologies in Edison, N.J., manufactures equipment to monitor the flow of electricity through computers. If there is a sudden spurt, the computer can go awry. Dranetz has a lock on the market, says Carey.

State Capital

The number of state programs to spur business expansion within the states' borders continues to grow.

Businesses seeking to establish new operations or expand existing ones now have a variety of options for state assistance in raising venture capital. Ohio and Virginia, for example, have offered new approaches.

Ohio has announced a more than $2 billion lender commitment program guaranteed by the state to spur small business expansion and job creation. About 100 state banks will be participating. Small firms will be able to get $1 million in expansion capital by taking out a first mortgage from the bank for 10 years and a second mortgage through a federal or state loan program for 15 to 25 years. Business' advantage will be availability of capital and long-term financing. Banks will benefit from reduced risk because part of the loan will be guaranteed by a government agency.

Virginia Small Business Financing Authority has a new program for small companies offering fixed asset financing at rates normally available only to larger firms. The Umbrella Tax-Exempt Bond program will help firms with financing needs in the $100,000 to $999,000 range. Eligible companies must have either fewer than 250 employes, or $10 million or less in annual sales, or less than $2 million in net worth.

GTE says its new phone marts will give smaller businesses some of the advantages large companies get from personal sales calls.

PHOTO: GTE

GTE Branches Out

General Telephone & Electronics is going after small business.

"Deregulation has made it difficult for small businesses to get the telecommunications information they need," says William Enders, GTE's acting director of consumer marketing for telephone operations.

"We can't afford to have a $60,000 salesman calling on a small firm with a three-line phone system capability as opposed to a large company with a 4,000-line capacity." Yet, not wanting to ignore the small business market because of its potential value, GTE developed a three-channel distribution system to put company owners in direct contact with its sales experts.

There are 90 phone marts, each manned by three people, in major national markets. An owner can walk in, see what new products and services are offered and get a demonstration. Business offices staffed with 5,000 GTE sales employes allow owners to call in if they are having problems and be serviced right over the phone.

A Prime Error

A University of Houston finance professor advises small firms to ignore the prime rate when shopping around for the best bank loan deal. The prime is simply a rate set by the bank, says Paul Horvitz, and can be changed any time regardless of what may be occurring in the financial markets.

"When a business customer gets a loan at 1 percent above prime, he thinks he is getting a good deal because supposedly that's only 1 percent above what the best customers get," Horvitz says.

But, he continues, the prime is not the rate that most banks charge their best customers. Horvitz suggests looking for loans that are tied to the rates of Treasury bills, certificates of deposit or longer-term indices.

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COVER STORY

For Richer, For Poorer

By Sharon Nelton

Commercial real estate developers Sharon and Bill Criswell find that being business partners enhances their marriage. Shared business experiences, like shared personal experiences, can strengthen the bonds between a woman and a man, say this Dallas couple.

Not long after William T. Criswell started the Criswell Development Company in Dallas in 1976, he decided he needed a business partner.

He expected this partner to have business intelligence and other standard qualifications—and some extra dimensions.

Criswell wanted someone who was realistic and hard-headed enough to offset what he recognized as his optimistic and visionary approach to his work in commercial real estate development. The partner would also have to care about the business' success as much as he did and be someone he liked to work with.

As it turned out, he knew just such a person, an attorney who worked for a local law firm.

The attorney happened to be his wife, Sharon "Sheri" Criswell. She agreed to join him. The Criswell Company, as the firm is called today, employs more than 150 people and has more than $600 million in office, hotel, apartment and other projects under construction or completed.

Those projects include Hyatt Regency hotels in Austin, West Houston and Denver, a business park in Albuquerque and two apartment complexes in Irving, Tex. The firm's office developments are making a permanent imprint on the Dallas skyline. One, under construction, is Fountain Place, a stunning office and hotel complex designed by architects I.M. Pei and Harry Weese.

The Criswells provide a dramatic demonstration of a trend in today's business world—the sharp increase in the number of entrepreneurial couples—marriage partners who are also business partners.

There is nothing new, of course, about mom and pop stores. But mom and pop—and the types of businesses they run—are not what they used to be.

Many of today's entrepreneurial couples are reaching beyond the desire just to make a good living for themselves. They are creating growth businesses

PHOTO: T. MICHAEL KEZA

Marriage partners who have become business partners seem to be everywhere on the growth company scene today. Here is what it is like to work together and live together.

that provide jobs for great numbers of people in their own enterprises and in the plants and offices of their suppliers.

There are pioneers like Olga and Jan Erteszek, who left war-torn Poland for California in 1940 and used a $10 nest egg to start the Olga Company, the famous lingerie firm that now has annual sales of more than $67 million. Or Estée Lauder and the late Joseph H. Lauder, who founded in 1946 what is now one of the world's best known cosmetic companies, with estimated sales of more than $1 billion a year.

Or Wilbert L. and Genevieve W. Gore, who started W.L. Gore & Associates in the basement of their Newark, Del., home and built it into a multinational company, with Gore-Tex fabric the best-known of its many products.

In today's entrepreneurial world, it seems, you can't turn around without bumping into husbands and wives in business together. Very successfully.

Debbi and Randy Fields estimate that their Mrs. Fields Cookies stores will number 345 by the end of this year. Elisabeth Claiborne Ortenberg and her husband, Arthur, have made fashion and business history at the helm of Liz Claiborne, Inc. Sidney and Frances Lewis shaped the catalog showroom industry with Best Products Company, which they started with one showroom in 1957. Best now has 18,000 employes and does more than $2 billion a year in sales at more than 200 locations.

The growth of small enterprises to such size is not the only major difference between these and the mom and pop stores of the past. It used to be that pop was the entrepreneur—it was his business. Mom did the bookkeeping in the back room.

Where once wives may have played vital but unrecognized roles in family enterprises, couples are now taking steps to assure that the wife is recognized as a full and equal partner, sometimes the first among equals.

There are no official statistics on the

Randy and Debbi Fields say their marriage would not work if they did not spend a lot of time together. Jointly creating Mrs. Fields Cookies, soon to have 345 outlets, has enabled them to nurture a relationship that Randy describes as "time dependent."

PHOTO: PATRICK McDOWELL

COVER STORY

For Richer, For Poorer

When you are in business with a spouse, you have a partner you can trust, says Raymond Hamilton, who runs a Boston quick-printing company with wife Paula.

PHOTO: RICK FRIEDMAN—BLACK STAR

total number of businesses owned by husband-and-wife teams. No figures, for example, are kept on corporations and partnerships run by couples. However, Thomas Gray, chief economist of the U.S. Small Business Administration, says the number of sole proprietorships operated by couples (excluding farm businesses) soared from 284,405 in 1981 to 440,000 in 1982, the most recent year for which figures are available.

The reaction of many people when they learn a couple is in business together is to say: "And you're still married?" Many people just can't conceive of a 24-hour-a-day relationship with a spouse.

"For some couples, being together all the time is poison," says psychologist Marta Vago, of Santa Monica, Calif. "Their personality makeup is not such that they can tolerate that amount of closeness with another person."

But others thrive on the togetherness. Randy Fields says his relationship with Debbi "is time-dependent. If we don't spend a lot of time together, it doesn't work. We get lonely. We get angry with each other. It's a mess."

Many of the men and women who are successfully meshing their business and personal relationships would not have it any other way. Combining the two, they say, is good for their marriages and good for their businesses. Here are some of the advantages they see:

- The marriage is enriched.
- There may be a greater commitment to the business when the partners are husband and wife.
- Business decisions made in the give-and-take between the partners are better than they would be if made by one person acting alone.
- The business partners have no doubts about each other.
- Couples can complement each other's strengths, offsetting weaknesses and serving as checks and balances on each other.
- Spouses find they understand each other better because they can see what the other goes through during the day.

When it comes to marriage enrichment, I.N. "Skip" Schatz says, "I think our life is more interesting and more whole because we are in business together. We have so much more common ground." He and his wife, Joanne, own a string of Maryland and Virginia stores, Advanced Bed Concepts, that sell adjustable beds. They also own the Virginia Adjustable-Bed Manufacturing Corporation.

Says real estate developer Bill Criswell: "We share so many more things now." He won't equate being at a meeting with your spouse at which a big tenant agrees to a lease with being in the delivery room when a baby is born. Still, he says, "both are mutual relationship experiences, rather than MY experience or HER experience," and the shared business experiences can deepen the bonds between a man and woman.

W.L. Gore's Bill Gore is among the business people who believe there is a

Better business decisions can grow out of disagreements between spouses, say Karen Quade, cutting fabric at left, and husband Dennis, offering instructions to an employe at right. Their Fort Myers Beach, Fla., company manufactures awnings for buildings and canvas covers for boats.

PHOTOS: T. MICHAEL KEZA

greater commitment to the business when a husband and wife are running it together: "You're tremendously more involved, and there is absolutely no question about the agreement between you on the objectives."

The business that he and his wife started in their basement now has 30 plants and more than 4,500 workers. In addition to Gore-Tex, which is used in sportswear and camping equipment, it makes medical and electronic products and is widely admired for its nonauthoritarian management structure, in which all workers are "associates" and considered equals.

"A husband and wife are in it together," Gore says. "They win or lose together. Both are trying to make the business a success, and whatever it takes to make it successful, that's what they'll do."

And marriage partners with a strong commitment to each other can enjoy the luxury of working without doubts about their business partners.

Raymond "Sugar Bear" Hamilton, who is half of an entrepreneurial couple, says: "You have a partner that you trust and know." Hamilton, a former defensive lineman for the New England Patriots, and his wife, Paula, own and operate Hamilton Printing and Graphics, a $500,000-a-year quick printing company in downtown Boston.

Couples running a business together often find that the decision-making process is one aspect of the enterprise that is improved through disagreement.

Jeanette and Howard Shapiro run a Crystal Lake, Ill., firm that repairs television cable converters and other electronic equipment. "It's not uncommon for Howard to start out in right field and me in left field," Jeanette says. "The more heated discussions happen when we're really kind of polarized, but we come to an intermediate position, which I often feel is better than either of us started out with."

The ability of partners to serve as a check and balance on each other is also a positive part of the decision-making process. Karen Quade and her husband, Dennis, partners in Karen's Canvas, a small Fort Myers Beach, Fla., manufacturing firm, disagreed originally over his suggestion to add a line of awnings to what was their major product, boat covers.

"Denny's got ideas coming and going all the time," says Karen. "He always wants to do all these things. I tend to have my feet on the ground a little bit more. I'll say, 'Well, do we really want to do that?' If we both agree on it, after we've talked about it, then we go ahead."

They went through that process about the awnings after attending industry meetings on the subject. Now it appears that awnings will be their biggest growth area.

The most important decisions facing entrepreneurial couples when they start out include how to structure the business and how each will be compensated monetarily.

Karen's Canvas is a sole proprietorship in Karen Quade's name. "I just work here," jokes her husband, who says the arrangement offered tax advantages.

But both also thought a company headed by a woman might be a factor in attracting customers.

The Hamiltons' printing firm is a corporation. Raymond takes a salary out of it, but, on the advice of their tax

Keeping Business And Personal Lives Separate

When Dennis Quade leaves for work in the morning, he kisses his wife, Karen, goodbye. He goes off to breakfast at a local restaurant and then heads on to Karen's Canvas, the Fort Myers Beach, Fla., boat-cover and awning business that he and Karen own.

Meanwhile, Karen gets herself ready for work. When she arrives, she greets the employes and says good morning to her husband as if she were seeing him for the first time that day.

For the Quades, the ritual is one way of separating business from their personal life.

Some couples find it unnecessary to make such a distinction. They can talk business all day and still relish shop talk at night. But others insist on a separation.

Jan Erteszek, who with his wife, Olga, founded the Olga Company, a Van Nuys, Calif., lingerie firm, more than 40 years ago, admits that he likes to talk about business even when the work day is done.

However, he says with a hint of a smile around his eyes, "Olga would fine me 25 cents for every word that I would utter about business after business hours. Sunday, it was double. She made a small fortune on that invention."

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COVER STORY

For Richer, For Poorer

When Janet Makrauer's husband and partner died, son George persuaded her to assume leadership of the family's plastic bag manufacturing company.

PHOTO: ROBERT FLISCHEL—PICTURE GROUP

accountant, Paula is not paid a salary.

Jeanette Shapiro is among spouses who have learned that married partners in an enterprise understand each other better because they share experiences throughout the day. And she has a special perspective on the subject as a former marriage counselor.

She recalls a period in the days before their business partnership when her husband was an ambitious policeman bucking for police chief. He spent so many nights and weekends working, she felt neglected. As his business partner, she now realizes how involved he becomes in his work. In the early days of their enterprise, she was working alongside him weekends. "If I hadn't been there, I would never have understood," Jeanette says.

For women, going into business with a spouse offers special advantages. Says Genevieve Gore: "A woman who has raised a family, done the shopping, taken care of her husband, taken care of her house, done her decorating, done whatever social things she needs to do—church, women's clubs, whatever—is a very capable individual. And yet, when she goes out into the marketplace, she has a hard time finding a job."

Vieve Gore was at that point on their 23rd wedding anniversary in 1958, when she and Bill began business operations in their basement. "It was absolutely fantastic for me to have a job to go to—one that we were working on together," she says.

For younger women, being in business with a spouse offers a way to combine motherhood with a stimulating career. Paula Hamilton recalls how she went home, returned with the two Hamilton sons and bedded them down in the print shop one night when she and her husband had to work until morning to finish a job by its deadline.

But usually, she says, the business affords her the flexibility she needs to take care of the children in a traditional way when they need her. Sometimes Raymond takes over the parental duties while she goes to a business meeting.

Debbi Fields, mother of three daughters, has been known to keep diapers and, until recently, a crib in her office.

These commentaries on both the business and personal aspects of husband/wife entrepreneurship might make it sound as if such a relationship was one of total bliss in both areas. Bill Gore, Raymond Hamilton and Debbi Fields, among others, deny there are any disadvantages to joint business ownership with one's mate.

But some entrepreneurial couples, as well as marriage and family therapists, cite drawbacks.

For one thing, reports Sheri Criswell, there is nobody waiting at home to whom you can say, "Boy, was that guy I work with a pain today!"

Says psychologist Marta Vago: "Whether it's fair or not, we do use our spouses for sounding boards and sometimes dumping grounds. You need a safe place in which to express your frustrations or to express whatever is in your heart. But if what you are frustrated about is the business you are sharing with that person across the dinner table, you may have no one to unload on."

And, when things go wrong for a couple in business during the day, they can go wrong in the bedroom at night. Rocco and Dianne Altobelli, who own the Rocco Altobelli beauty salons in St. Paul-Minneapolis, recall a period of high stress about six years ago, when the business was beginning its rapid growth to current annual revenues of $5 million.

"We had a lot of arguments, and we brought business home," recalls Rocco. "What would drive me crazy is that we would get ready for bed, and she would bring up some business management things that I hadn't dealt with. That would tee me off, and I'd be up until 4 in the morning thinking about that. And I would yell at her, 'Don't ever tell me anything before I go to bed!' "

But other couples, like store owners Joanne and Skip Schatz, say that business problems in no way harm their sex life. If anything, says Joanne, their love life offers a means for reaching out to each other when problems occur.

At the same time, even the most compatible husband-and-wife business teams encounter pitfalls they must learn to cope with. The Criswells found they had unexpected adjustments to make.

Bill had started the real estate development firm more than a year before Sheri agreed that she would quit her law firm and become his partner. She had done some legal work for him when they were following separate career paths, and they had worked well together.

So it was a surprise to both when, soon after she joined his business, they were often fighting. They talked it out and realized that, in their new working relationship, each needed the other's approval so much that they were overreacting to each other.

If Sheri expressed a legal judgment that seemed critical of Bill, he would take it hard. She in turn was defensive about her work.

"We were both trying to impress each other," laughs Sheri.

Other couples have found that they must make their partnership one that their employes can live with. That was brought home to Roberta House, she says, when she and her husband, Jerry, bought a small drive-in restaurant in Watonga, Okla. It has since grown into

the End O' Main Company, a catering firm with 60 employes.

The first day they took over the drive-in, Roberta recalls, one employe said, "I want to get one thing straight. Who's the boss?"

"And that stuck with me right there," says Roberta, "because nobody can work for two bosses." They decided Jerry would have the honor.

Other entrepreneurial couples have learned that, if they have not sorted out their own conflicts, the workers might suffer.

Rocco Altobelli, who describes himself as "a very dominant and intimidating type of person," ran the show himself when he opened his first hair salon. When he launched the second, Dianne eased into the business part-time, doing the bookkeeping.

As the company grew, she assumed more responsibility, eventually taking over administration of the firm. That freed Rocco to spend all his time on the creative side of the enterprise and on public relations. But he had trouble letting go of power, and he would sometimes countermand her orders.

"I must have resigned four or five times," says Dianne, who can laugh about it now. "I'd leave him a letter: 'I'll never work for you again in my life. You are the worst boss in the world.'"

When employes began to complain that they were confused, Rocco learned to back off: "I let Dianne alone and, behold, she did a fantastic job. She did things better than I could do."

On the other hand, couples have found that occasionally an employe will play one spouse against the other, hoping, for example, to get support from a wife on a decision if he cannot get it from the husband. Though some couples find this annoying, Sheri Criswell says it can be good for the company. Recently, she says, Bill was in a hurry to move on a refinancing deal, but some employes were worried about the direction the deal was taking. They voiced their fears to Sheri because they knew she could get Bill to slow down and think through the implications.

Sometimes it is a nuisance, but it offers another avenue for getting a complicated issue looked at from another angle, Sheri says. "On balance, you get better decisions."

Another potential trouble spot for couple-owned businesses is their vulnerability to personal crises. Ten years ago, Jerry and Roberta House were expanding their small Oklahoma restaurant into a catering service when they learned he had throat cancer. Roberta had to meet demands on her time and emotional and physical strength that an ordinary partner would not have faced. For example, she and Jerry got up at 5 a.m. five days a week and drove the 75 miles to Oklahoma City, where he received cobalt treatments.

Jerry was given a 20 percent chance of survival. He kept working, but business fell off.

"Cancer is like leprosy," says Jerry. "People don't eat with you when you have cancer." The Houses had gone through all their savings when they learned Jerry would recover.

Shortly after they opened their fifth salon in 1980, the Altobellis' youngest son, 12-year-old Nino, lost an eye in an accident during a game of yard darts.

It was Dianne who told Nino that his eye would have to be removed, and it was Dianne who ran the business from the boy's hospital room for the next two weeks and then went back to work. But Rocco took three months off, not only because he wanted to be with the boy, but also because he could not face a business-as-usual routine.

"I repositioned my values a lot," says Rocco. Dianne puts it another way: "Business is not No. 1 in Rocco's life anymore."

Death, of course, is the ultimate crisis. When Irvin Makrauer died of lung cancer two years ago, his wife and business partner was not at all sure she wanted to take over their Cincinnati company, Amko Plastics, Inc. Janet Makrauer had worked with her husband for 43 years—first in a small packaging business they ran while he worked for someone else in the plastic-bag business, then in the company they launched in 1966 to make plastic shopping bags. Their son, George, joined them shortly afterward in what became a three-way partnership.

The firm, whose clients include Neiman-Marcus, 3M and American Express, is expected to have more than

Continued on page 36

COVER STORY

Would It Work For You?

By Sharon Nelton

Do you and your mate have what it takes to be an entrepreneurial couple? Though some couples make a good match both at home and in business, running a company together is not for everyone, warns Marta Vago, a Santa Monica, Calif., psychological consultant and lecturer.

Vago ought to know. She has not only counseled couples in business together, she has also been part of an entrepreneurial couple.

She and a boyfriend owned and operated a center for psychotherapy training and consultation in Philadelphia for seven years. Partly because of conflicts arising from the business, their personal relationship collapsed. The business was also dissolved when neither was able to buy out the other.

That financial, professional—and personal—setback spotlighted a basic factor in whether entrepreneurial couples succeed or fail: Being in love with each other does not necessarily mean you will make good business partners. And, while complementary talents and temperaments are vital, they are not enough, either.

"For a couple to be an entrepreneurial couple, they've got to be team players," says Vago. That means they have to feel comfortable sharing the power and sharing the decision making.

Tony Harnett agrees. He and his wife, Susan, run Bread & Circus, a Boston chain of natural-food supermarkets. Harnett says: "If you haven't been tested before and you're going into business, where you have the dollars on the line, you can lose the business and the marriage at the same time."

To determine whether you and your spouse work well as a team and might make good business partners, Vago suggests looking for clues in projects you have already done together. These can range from something as simple as preparing a meal to creating an elaborate garden—"anything that involves mutual decision making, mutual goal setting, mutual problem solving and mutual evaluation."

As you review how you handled such projects as a couple, ask yourselves such questions as: Do we wrangle over details, or is there an easy flow of views? Do we value each other's opinions? Do we respect and admire each other's skills? Can we freely say to each other, "I would never have thought of that"? Did we have fun doing this project? Was working through the process exciting or drudgery? Were the projects successful? If not, how did we deal with failure? Did we start blaming each other?

To be successful as business partners, spouses must be able to share power and decision making, says Marta Vago, a consulting psychologist and lecturer.

PHOTO: T. MICHAEL KEZA

William and Sharon "Sheri" Criswell of the Criswell Company, a Dallas real estate development firm, say a couple should not go into business together unless they see themselves as peers. They can have very different skills and very different responsibilities, says Sheri, but each must consider the other "equivalently important to the organization."

Like many couples, the Criswells think it is important for both partners to have had some business or professional experience on their own before starting a business together. Sheri had a legal career and Bill had been in real estate before they joined forces as entrepreneurs.

"I don't think I would have had the self-confidence to share the limelight if I hadn't had the chance to be a success in my own right," Bill says. Because he already knew "what power tastes like," he explains, he did not feel it was something he was being deprived of when he shared it with his wife.

Partners also need to recognize each other's need for growth, Marta Vago advises. When she and her partner started their business, she did not mind that she was doing most of the administrative work. But when she wanted to develop her abilities in the more creative areas of the business, her partner resented the intrusion.

Tony Harnett urges couples to examine beforehand why they want to go into business with each other. A certain type of business may be right for one because that partner has a particular skill, such as legal training or a talent for art. But it does not follow that the business would be right for the partner.

When a couple starts a business, he says, it has to be something they both fervently want to do—"a mutual dream, a shared dream."

"This is the business that turned our **dreams into reality**"

A true story by
Wilton Hildenbrand

I never made "real money" until I quit working for someone else and started my own Duraclean business

"When I was with the New York City Fire Department—with a wife, and three children to raise—I felt I spent most of my time putting out financial fires at home! It occurred to me that I could never achieve the financial security and independence we craved working for someone else. The obvious answer—start a business of our own. But what? Sure, we had been able to

put a little money aside, but nowhere near what it takes to start most businesses. I looked for something I could get into with a small amount of borrowed money.

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"Marge, my wife, discovered the perfect answer. She had run across a Duraclean story—a message much like this one—and we looked into it. Well, believe me, when we saw the superior Duraclean service demonstrated and found out what a low investment it took, we were sold.

"With a fireman's schedule, I was able to start out in my spare time. (I didn't want to burn all my bridges behind me.) Marge and I mailed out company provided mailings describing our service and soon the phone began to ring. She made the appointments. I rendered the service. When we discovered how much money there was to be made in a Duraclean dealership, I took early retirement from the fire department. Before long, I had to hire part-time servicemen. Soon, profits paid for our first van. Now most of the work is done by our four servicemen. Marge schedules the jobs, sends out mailings and does the bookkeeping. I do the job estimating, special spotting jobs and contact new prospects."

Now at this point you're probably asking yourself, what is this Duraclean business Wilt Hildenbrand keeps raving about? Well quite simply, it's a unique, superior system for cleaning upholstered furniture, rugs and carpets (don't confuse it with "steam cleaning" or ordinary shampooing methods). It not only cleans but restores and revives colors. It does not wear down the fiber or drive the dirt into the base of the rug as ordinary cleaning methods do. Instead it *lifts out* dirt by means of an absorbent dry foam.

Today the Hildenbrands provide cleaning for banks, country clubs, churches, offices, hotels, motels, funeral parlors, theaters and homes.

Carpet and furniture stores gladly recommend Duraclean to customers. It helps them close sales. 45% of the Hildenbrand's business is from customers' referrals and repeat orders.

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You can choose from four dealership options, starting at $5,900 down. Full cash investments, including equipment, supplies and training, range from $13,400 to $25,900. Financing is available for those who qualify.

Send for FREE booklet

Send in the coupon today. With no obligation, we'll mail you a 32-page booklet explaining the business. Then you, and you alone, in the privacy of your own home can decide. Don't delay. Mail the coupon now.

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COVER STORY

For Richer, For Poorer

Jeanette and Howard Shapiro run a firm that repairs electronic equipment. They were once ready to give up, but pulled together to turn the company around. Now it is prospering.

PHOTO: T. MICHAEL KEZA

Continued from page 33

$20 million in sales this year. Janet Makrauer credits George with pulling her through the last three months of her husband's life, when she spent every day at the hospital. He would stop by in the morning to leave work for her to do during her vigil.

"When he was hiring important people," she recalls, "he'd send them over to the hospital to make sure that I was involved in the interviews."

Either George or Janet could have succeeded Irvin as president. "I didn't want this tremendous responsibility," she says. Her son and the board of directors, however, prevailed on her to take the position. George is executive vice president.

Death is not the only event that terminates a matrimonial business partnership. One business couple declined to be interviewed for this article because they had just filed for divorce.

Nearly all the entrepreneurial couples who were interviewed, however, appear to be successful in blending business and marriage, and these common threads emerge:

Marriage and children come first.
Don and Judy Quine, who run the Professional Karate Association from their Beverly Hills, Calif., home, each brought three children to their marriage. Don says they decided that if business "got us out of joint with each other, we would ditch the business."

The spouses respect each other.
Olga Erteszek says her husband has "great business acumen"; he praises her creativity and inventiveness. Dianne Altobelli says Rocco is excellent at motivating people; he takes pride in her management skills.

There is close communication.
To the Quines, for example, communication about both marriage and business issues is important. If either party is not happy, says Judy, "you really have to talk about it. If you don't confront it, it isn't going to go away. It is going to fester and turn into something that may destroy this unit that you want to retain." The Quines exhibit a confrontational style, arguing frequently both in their business and personal lives.

The partners complement each other's talents and attitudes, and they carve up turf accordingly.
Howard Shapiro handles sales, production, engineering and new product development, while Jeanette oversees personnel and administration, which includes relationships with bankers, attorneys and accountants. Employes in his area answer only to him; those in Jeanette's, only to her.

The partners support each other.
Vieve Gore prodded Bill to follow his dream, even though it meant leaving a well-paid and satisfying position at Du Pont. Bill Criswell says he never would have had the courage to start the Criswell Company if Sheri had not given him advice and support. "She gave me the absolute freedom to fail. She let me know that, if the business didn't work out, if I tried it and gave it my best, I would not have a wife who would look on me as a failure."

After arriving in Los Angeles in 1940, Olga Erteszek was shocked to see many otherwise elegantly dressed women securing their stockings by rolling them over a band of elastic. Only peasant women did that in Poland. "Somebody should at least make a garter belt," she complained to Jan. "Why don't you do it?" he countered, and even agreed to serve as a salesman.

Olga designed four samples, and a supportive—and red-faced—Jan went out and made the first sales.

Entrepreneurial couples have strong family ties.
The Fieldses and Altobellis frequently take their children with them on business trips. All three of the Houses' children have joined the family business. The Gores early on shared a majority of the corporate stock with their children, overriding the advice of lawyers who warned that children don't always turn out the way their parents would like them to. Today, son Robert is president of the company, and all the Gore children are directors.

Spouses compete with the world outside, not with each other.
The Shapiros once were almost ready to throw in the towel, when bad advice from a consultant caused them to make technical errors that resulted in a $25,000 loss. A friend of the consultant offered to take the business off their hands, but said he could not pay much because "it's not much of a company." The Shapiros got fighting mad and put their energies into turning the firm around.

Bill Criswell speaks for most entrepreneurial couples when he suggests that the way they approach their special world recalls the outlook of the determined couple trying to wrest a farm out of the prairie:

"We're fighting the weather, we're fighting the pests, we're fighting the bank and everybody else, but we're doing it together." NB

Sharon Nelton, NATION'S BUSINESS *staff specialist on entrepreneurship, is writing a book, tentatively titled* Entrepreneurial Couples, *scheduled for publication by John Wiley & Sons in the fall of 1986.*

To order reprints of this article, see page 81.

Franchising

To consult or not to consult? The rule is, let the buyer beware, especially in this fast-growing industry.

By Ripley Hotch

Carol Dolich has decided it is time for a change. "My children are all fully grown," she says, "and I'm at the stage in my life when I'm anxious to do something."

That "something" is starting her own business. She will probably buy a franchise, because "I want a little bit of control, but not total control."

That is the essence of the franchisee's position. Because the details of running a successful business have already been worked out by the franchisor, someone starting in has a guide and helping hand at every stage.

But deciding on one of the nearly 2,000 franchisors often is a matter of happenstance. In an astonishing number of cases, the franchisee simply heard about the franchise from a friend.

Dolich had some friends who had franchised making and selling specialty chocolates, and this appealed to her.

"I love to cook," she says. "I have always been interested in food." The simplest, most obvious path seemed to be to open a franchise selling chocolates in her hometown of Rye, N.Y.

But Dolich did not take the obvious path. She realized she knew too little to take the plunge. Instead, she turned to consultant Robert Kushell, president of the Franchise Learning and Consulting Center, of Glen Cove, N.Y.

Kushell offers an introduction to franchising for prospective franchisees like Carol Dolich. The three-hour session with the client and his or her spouse focuses on self-evaluation.

"You start off really blind," says Dolich. "The first feeling is one of incredible ignorance." That is a common complaint both of potential franchisees and of potential franchisors.

Dolich was lucky. She found out during the process that retailing was not for her, but that volunteer work she had done had prepared her for work in services of some kind rather than direct sales. She is now looking at personnel franchises.

More than that, she says, Kushell encouraged her to become an informed consumer: Could she afford to lose her initial investment, if the business did not succeed? Could she be comfortable with paying a royalty fee to the franchisor as long as she was in business?

Consultants usually help franchisors rather than franchisees although a few, like Robert Kushell, end up advising both. Here he conducts a seminar for franchisors.

PHOTO: DAVID BERGELAND

("I'm not sure I'm comfortable with that yet," she says.)

Kushell also told her what information sources to use, how to examine the literature from franchisors and how to contact franchisees who have lived with a franchisor for a number of years.

Kushell insists that you can do your own investigation, if you are willing to do the work of analyzing yourself as well as your finances. Another consultant, Donald Wilson, president and chief executive officer of National Fran-Mark Corporation, agrees.

Wilson, who hosts a Los Angeles radio call-in program on franchising, says callers always want to know what the most successful franchise is and how they can get into it. That's the wrong approach, he says. You may not be right for that franchise: "Maybe you just don't like to be around 18 pimply-faced kids who cook hamburgers all day long, or get up at 5 o'clock in the morning to make doughnuts.

"Most of the call-ins don't understand even the financial qualifications to get involved in franchising, or whether they could move to Podunk, Idaho, where the franchise might be available if it's not available in their market area. There are so many qualifications that a franchisee must really take into consideration before he even thinks in terms of the full dollar involvement."

Kushell stresses to his clients how much work is involved: "Potential franchisees are impressed by success stories written about people in franchising—some of which are true—but they also are very unrealistic about what their responsibilities are, how hard they have to work, how programable they must be. Nor do they really probe to find out whether the franchisor has demonstrated with other franchisees that he has lived with that he shares their philosophy."

The result: unhappy franchisees.

Finding a consultant is not easy. Kushell offers his service only in the New York area (and charges $600 for the three-hour session).

The success stories appearing widely in magazines and newspapers have created a gold-rush atmosphere that has opened the way for salesmen who

sometimes bill themselves as consultants, and for franchisors interested only in selling units (rather than building businesses).

There are between 80 and 100 consultants in the franchising field, offering advice on law, marketing, franchise sales, brokering, structuring a franchise company, public relations and advertising. Almost all of them, however, work solely with franchisors. Those who do advise franchisees almost always consult with franchisors as well.

Although there is a potential conflict of interest, it is not necessarily bad, says Kushell, for a consultant to advise both franchisors and franchisees—if the consultant informs the client of the dual role, does not try to steer the potential franchisee to one particular franchise and is being paid by only the person being advised.

The buyer should be wary in these cases and evaluate the consultant's suggestions accordingly. If the consultant, for example, counts a diet center among his clients, does he emphasize diet franchises or try to steer you to a particular one?

Sales presentations, seminars or franchise opportunity shows can help a potential franchisee, as long as he is aware that he is dealing with a salesperson, whose main interest is selling a franchise. Such a salesperson is not telling you about competing franchises in that field, or trying to help you decide whether you have the right temperament for that particular kind of franchise.

The rush to franchise has actually put as great a strain on potential franchisors as on potential franchisees. And many good business people, who are normally very careful about any decisions in their own business, are easily taken in by a glib consultant who offers to help them become franchisors.

Says Andrew A. Caffey, general counsel of the IFA: "I find it useful to caution business people about franchise consultants. There is a kind of glow about franchising that, in the '70s, enabled some franchisors to sell seemingly too-good-to-be-true franchises to unsuspecting purchasers. Well, the same glow is being used to lure businessmen to franchising their businesses by consultants who have fairly shallow credentials."

The heavy regulation of the franchise industry, says Caffey, is part of the would-be consultants' lure. Potential franchisors are told that the legal complications are so heavy that "you need an Indian guide to find your way through the maze of regulations." All that is true, Caffey says, but business people unwilling to invest time in learning can easily fall into the hands of someone only interested in collecting consulting fees.

"Let's not paint the whole group of consultants with the same brush," says Kenneth Franklin, president of Franchise Developments, Inc., a franchisor consulting firm in Pittsburgh.

Franklin says there are many consultants who do not try to rush potential franchisors into the field. "Prior to encouraging a client to go into franchising," he says, "I like to look at all the marketing distribution alternatives other than franchising that would accomplish the same purpose for a lot less cost and aggravation."

Franklin says first sources for a consultant are the IFA, university business departments, some law firms, advertising agencies and other franchisors. A franchisee's first step, he says, is to learn about the field from printed sources (see box).

Norman Axelrad, president of the Franchising Board, Ltd., a consulting firm in Chicago, is a lawyer who spent 21 years with the McDonald's Corporation. He agrees with Franklin that the fundamental problem among both potential franchisees and franchisors is not understanding what franchising is.

"Particularly naive are those who may have a successful business and see franchising as a road to riches," he says. "The level of understanding tends to be rather minimal.

"You're really dealing with three separate businesses when you're in franchising: operation of the core business, which is a business concept that has been expressed in a pilot operation; sale of franchises, which is a pretty complicated business because of state and Federal Trade Commission regulations; and care and feeding of franchisees after they've been established."

The complexity of franchising, Kushell says, requires that it be a real partnership—much like a marriage. And that means not entering into the relationship blindly, or putting yourself naively in the hands of someone who labels himself a consultant.

"Franchising is a marvelous concept," he says, "provided that each side entering into this relationship has very open and accurate perceptions of what the other is going to give and what they must give the other. It starts there." NB

To order reprints of this article, see page 85.

How To Find Out More

Franchise Opportunities Handbook, $13.50. A paperback listing of essential information on franchisors, including whom to contact and cost of a franchise. Available at government bookstores or from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Franchising in the Economy, 1983-1985, $4.50. The Department of Commerce's statistics on the franchise industry. Also from the Government Printing Office.

C.R. Stigelman, *Franchise Index/Profile: A Franchise Evaluation Process*, Small Business Management Series No. 35, $2.50. A guide to questions you need to answer about a franchise before investing. Also from the Government Printing Office.

Twenty-One Questions, $1.00. The most commonly asked questions about franchising. A 16-page booklet from the International Franchise Association, 1025 Connecticut Avene, N.W., Suite 707, Washington, D.C. 20036.

The 1985 Franchise Annual Handbook and Directory, $22.95. A listing of franchisors and information about them; includes advice on investing. Info Press Inc., 728 Center Street, P.O. Box 550, Lewiston, N.Y. 14092.

Robert E. Bond, *The Source Book of Franchise Opportunities*, $19.95. Another listing of franchisors from Dow-Jones Irwin, 1818 Ridge Road, Homewood, Ill. 60430.

Is Franchising for You? $89.95. A series of six audio cassette learning tapes from Franchise Learning Center, Ltd., 20 Lottingtown Road, Glen Cove, N.Y. 11542.

Harry Gross and Robert S. Levy, *Franchise Investigation and Contract Negotiation*, $3.95. Pilot Books, 103 Cooper Street, Babylon, N.Y. 11702.

MANAGING YOUR BUSINESS

Bidding For Fair Play

Small business takes a close look at the government's procurement system in preparing for the 1986 White House Conference.

By Mary-Margaret Wantuck

In the five years since the 1980 White House Conference on Small Business recommended changes in federal procurement policies for small business, a number of improvements have been made.

The Small Business Innovation Development Act of 1982 set up research and development grants to small firms. In fiscal 1983, the grants totaled $44 million, and in 1984, $112 million; in fiscal 1985, they are expected to reach $200 million.

Federal purchases of less than $25,000 are now reserved for small companies, and a percentage of these purchases must be made from minority-owned business.

The Competition in Contracting Act, the Small Business and Federal Procurement Competition Act and the Defense Spare Parts Procurement Reform Act all helped open the federal procurement system to small business.

Despite these advances, of the $182.9 billion of goods and services the federal government bought from the private sector in 1984, small business' share was only 15 percent—$25 billion.

In preparing for next year's conference, the Small Business Administration asked a task force to compile a list of critical issues in federal procurement. The panel found major problems in government and nonprofit competition, in access to federal markets and in paper work and regulations.

Small business is especially hurt by government and nonprofit competition with the private sector, said task force members.

One group that has been battling this infringement is the American Association of Nurserymen. Twelve federal nurseries produce seedlings, primarily for reforesting federal lands. They will often sell their surplus at cost to customers, like farmers, who need large quantities. The sticking point, notes John Satagaj, director of government affairs for the nurserymen and a task force member, is that there have been no studies to substantiate exactly what the nurseries' costs are.

Last year, the association beat back a bill to allow the government to give free surplus seedlings to "public spaces"—like local parks that are generally serviced by private nurseries.

Mounds of paper work and complex rules have discouraged Richard Busby, owner of an engineering construction firm, from bidding on many federal projects.

PHOTO: DAN CONNOLLY—LIAISON

The government has also been competing in real estate management and leasing. In El Paso, Tex., it has built a federal office complex for all its employes, taking them out of private commercial space. "The government is really having a negative impact on our industry now," notes task force member Leon Jorjorian, president of Major Management Corporation in El Paso.

Competition from colleges, universities and associations is unfair, say panel members, because nonprofits are tax exempt and receive postal subsidies and special contracting priorities.

The nurserymen's association, like many other small business groups, would like to see federal legislation passed establishing a policy of reliance on profit-seeking enterprises.

Members of the task force were concerned about small business access to

federal markets, though they did not all take the same position.

"As a small-business person, especially as a woman entrepreneur, I find accessing the government market most difficult," says Laura Henderson, president of Prospect Associates, a Rockville, Md., scientific and biomedical consulting firm. "Quite often, people don't want to take the risk with you, but instead go with a large contractor."

In 1984, 36 percent of the $25 billion awarded to small business in prime federal contracts was done under set-aside programs. But task force member Phyllis Munoz-Kozel, president of Government Industry Associates in Mountain View, Calif., says "small business has been a victim of set-asides.

"When the federal government sets aside a certain portion of business for small firms," she says, "it decides what products and services in what specific industries are going to be targeted. Now what if the business is in an entirely different area from the types of contracts being set aside? Most women-operated firms are in services. Many contracts are in manufacturing."

Federal nurseries produce seedlings and compete with private markets, says industry spokesman John Satagaj.

PHOTO T. MICHAEL KEZA

Mounds of paper work and complex regulations discourage small firms from competing in federal markets, according to the task force.

"The government is trying to accomplish with paper work and a tremendous list of requirements for bidders what it should be handling through accountability," says Richard Busby, president of Busby Engineering Construction Company in Dayton, Tex. "In government, there is an incentive not to make waves; the more paper work you create and the less efficient you are, the more secure your job, which is the opposite of free enterprise." NB

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Keeping Afloat In The Import Flood

By Henry Eason

Asian household appliances are pouring into the United States, but foreign manufacturers have failed in repeated attempts to displace the mighty American vacuum cleaner. Hoover Company vacuums are still No. 1. The North Canton, Ohio, firm and its domestic competitors have kept imports below 3 percent of market share.

"Our philosophy is never to leave a blank spot in the market," says Hoover Chairman Merle Rawson. Foreign firms usually penetrate American markets, he explains, by introducing goods at the low end of a product line or by offering top-end items with superior technology.

Invasions of inexpensive hand-held vacuums and streamlined "stick" floor sweepers were foiled when Hoover matched them in price and simplicity. Later this year, it will open a Mexican assembly plant whose lower labor costs will enable Hoover to nullify imports' cost advantages well into the future.

And an ongoing Hoover research and development program turns out increasingly sophisticated floor cleaners like the Dimension 1000—which, company ads boast, "thinks for itself." Thanks to microprocessing, the cleaner, when set on automatic, adjusts to any kind of sweeping job.

"We've stayed on the leading edge of technology," says Rawson, "both from a product and manufacturing standpoint. Ours is a thoroughly integrated plant. We make 90 to 95 percent of everything that goes into our products right here in North Canton."

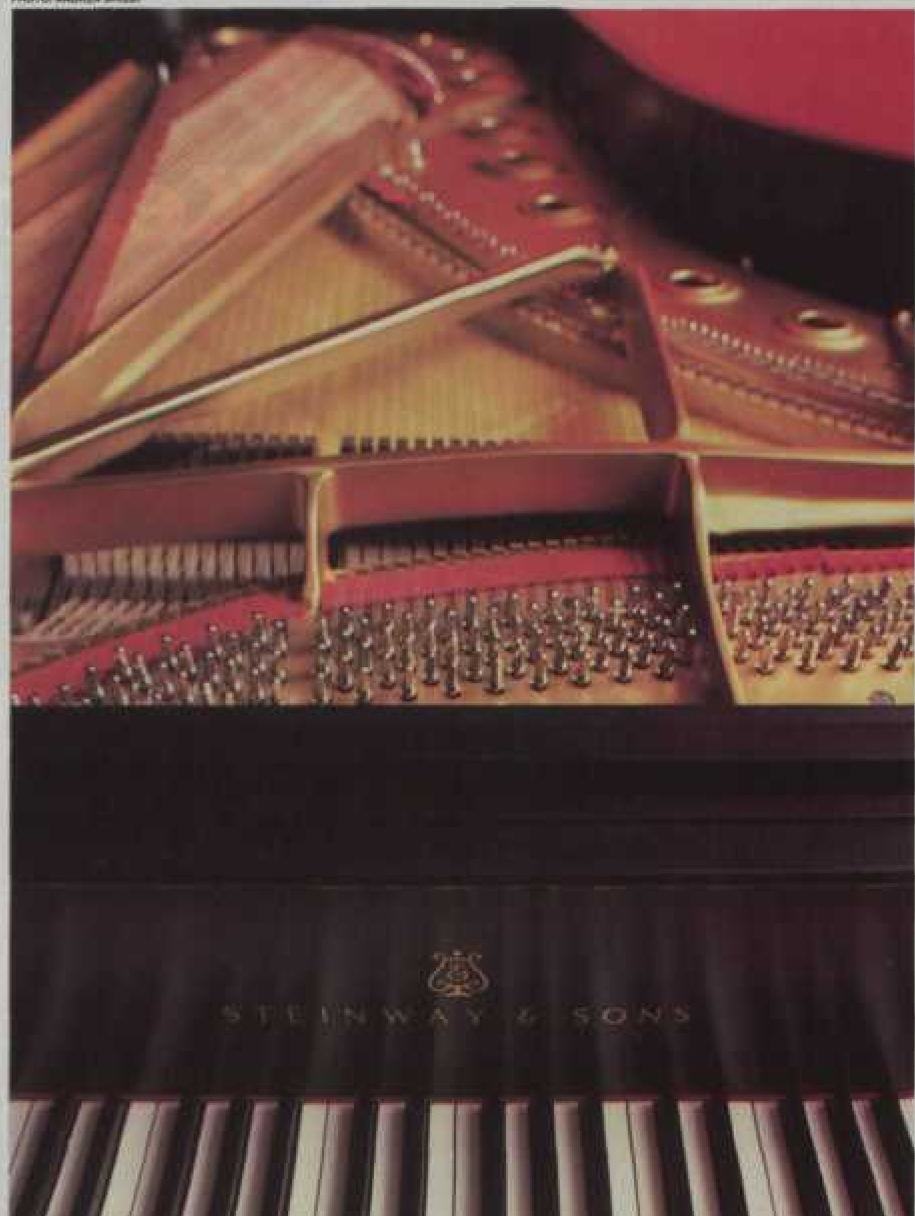
All across industrial America, sandbag brigades are trying to dike domestic markets against the flood of foreign wares. The trade deficit in manufactured goods rose from $38.2 billion in 1983 to a breathtaking $88.7 billion last year. The 1985 shortfall is expected to be higher still.

Though many companies are pleading for protective relief, firms in even some of the hardest-hit industries are successfully meeting the import challenge. They have been doing so despite the boost the high dollar has given imports and in the face of trade barriers that deny them foreign markets.

Such firms have in common a dedication to productivity—enhanced usually by automation—and a belief that there

Imported grand pianos have three quarters of the American market. Still, Steinway thrives because of demand for precision handcrafting.

PHOTO: ANDREA BRIZZI



In even the hardest-hit of industries, some U.S. companies are holding their own. Strategies differ, but they are long on quality, efficiency and fancy footwork.

will always be a market for the better mousetrap.

In 1982, Hoover installed at its Ohio plant a system that combines computer aided design and computer aided manufacturing to craft parts faster and more accurately. This CAD/CAM output is harnessed directly to assembly lines.

Hoover is No. 1 not only in the United States but in many other countries. The company has been a multinational since 1919. Last year 56 percent of its $683 million in sales were abroad. Sales are growing, but, says Rawson, the strong dollar and import pressures have stretched profit margins tight. Keeping ahead will be a constant challenge, with the rapid spread of technology and entry into the market of sleeping giants like China. His formula: more automation and long-range planning.

American industries, warns American Productivity Center Chairman Jackson Grayson, Jr., are in a "fight for survival with some very determined international competitors."

The center is a Houston-based nonprofit research institute serving business and labor. Says Grayson: "Some companies are meeting [the import] challenge—and will survive. They are important models for other American companies that have yet to make the commitment to innovation and quality required by the international marketplace. Innovation—from both labor and management—not protection, is the answer."

Nucor Corporation, headquartered in Charlotte, N.C., demonstrates that even steel companies can operate in the black, if they are innovative. Profits at Nucor, a leader in production of steel joists, rose 1,250 percent in a 13-year period during which its payroll grew only 240 percent.

President Kenneth Iverson says that "for the last decade, our price leaving our mills has equaled the price of foreign steel, dockside"—an enviable record in his import-battered industry.

At Nucor's plants, nonunion workers win extra compensation according to formulas based on increased productivity.

"Also, we built our steel mills in 1969 and 1970 using the newest technology," says Iverson. Nucor operates with a skeletal managerial crew. "There are 16 people in our corporate office," Iverson says. "Our employe cost is $60 per $300 ton of steel, compared with a $140 cost for larger companies."

Automation, aggressive marketing and self-reliance are Hoover Company tactics in the fight to keep imported floor-cleaning products below 3 percent of the American market.

PHOTO: GARY WORSTLER

PHOTO: CARL SKALAK

High quality will also keep manufacturers ahead of foreign competition. Asian manufacturers have successfully copied and even improved on many American products, but not on Steinway & Sons' grand pianos.

Steinway President Lloyd Meyer proudly recalls that at a recent international competition 35 of the 37 Asian contestants performed on Steinway grands. Last year more than 75 percent of grand pianos and about 30 percent of uprights sold in this country were made by European or Asian manufacturers.

Though imports are cutting deeply into other American manufacturers' sales, they are not hurting Steinway. The Long Island, N.Y., company keeps selling its handcrafted pianos because, Meyer says, they're the best.

If anything, Steinway expects its sales to rise. Increasingly, recording artists demand Steinways.

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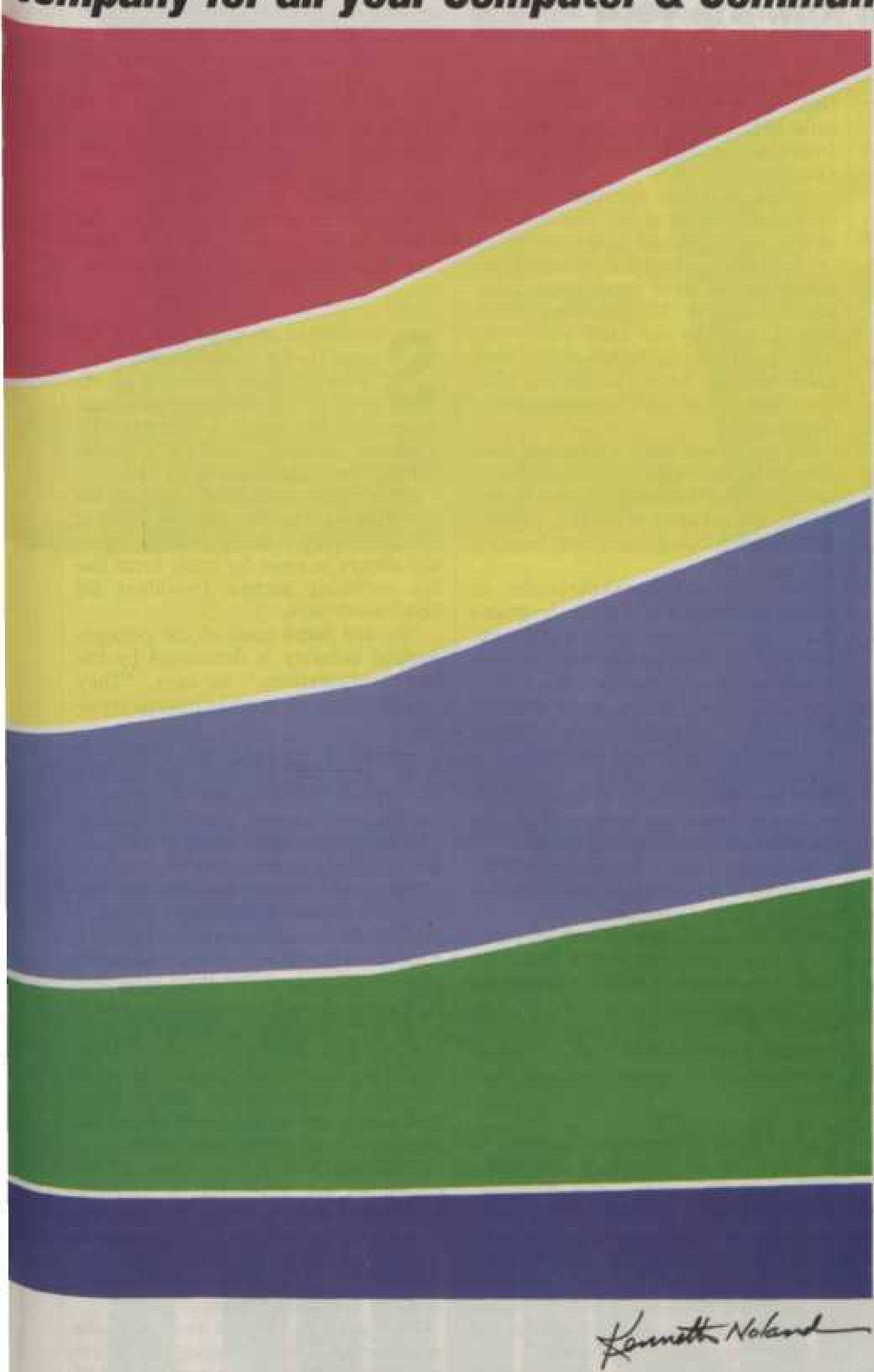

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been enhanced since the company began applying computer technology to measure the work of its craftsmen.

Bought by CBS in 1972, Steinway uses the broadcasting and record company's Stamford, Conn., technical center. Researchers film the action of piano hammers hitting strings at 4,000 frames per second, enabling Steinway to study sound.

Meyer says American manufacturers, in general, rested too long on their laurels and allowed importers to reach them in quality. "I blame management for losing the quality edge," he says.

Apparel manufacturing is among the most import-impacted of industries. It is not easy to compete with 8-cent-an-hour foreign labor costs. And yet New York's RJMJ, Inc., continues to make a profit selling women's pants and shorts. President Robert Shipman says his success formula is flexibility and timing.

Foreign apparel makers require at least six months' lead time to align manufacturing with retail sales. But six months can be an eternity in the fashion industry.

"Our plants are located in the South," says Shipman. "We're close to our mills. We can turn on a dime. We can get piece goods to them in a day or two and produce products for the shelves in three to four weeks. That enables us to catch a trend."

With the capacity to produce 56,000 pairs of dress slacks and shorts in a week, Shipman's plants can make a significant impact on his niche in the market.

Some American manufacturers are waging a successful holding action against foreign competition by keeping prices down.

If you walk into a bicycle shop, chances are that 4 out of 10 bikes will have been made abroad, most of them in Taiwan. That is becoming a serious problem for America's No. 1 bicycle manufacturer, the Huffy Corporation, of Miamisburg, Ohio.

"We have maintained our market share over the past two years," says Anthony Huffman, vice president in charge of marketing. "But our profit margins have suffered tremendously.

"We made a conscious strategic decision when the Taiwan flood began that we would meet its prices in order to maintain market share. The big question is: How long can we do it?"

Some other bike makers have broken off the fight, Huffman says, and are suffering even worse than his firm. Huffy has continued to improve its models, but Taiwanese manufacturers copy its designs, he says.

The American bicycle industry is fighting counterfeiting and what it calls unfair trade practices before the International Trade Commission and in Congress.

Asians, Huffman says, are violating consumer product safety standards, as well as copyright and trademark laws.

"We have not had the luxury of protectionism, as have some other industries," he says. "We just want everybody to play by the same rules." He adds that Huffy is "efficient and cost-effective—we have the lowest man-hour cost of any bike manufacturer in the world."

Efficiency and R&D supremacy characterize America's aerospace industry perhaps better than any other economic sector. Certainly, for civilian aircraft, "Made in the U.S.A." has long been the premier label.

Technological breakthroughs in American defense and space programs have benefited aerospace companies. Competition traditionally has been all-American in the domestic market. And yet, in recent years, even mighty Boeing Commercial Aircraft Company has been feeling foreign pressure.

Airbus Industrie, a European consortium backed by Common Market governments, is making sales to U.S. airlines. So is British Aerospace.

Though foreign sales have only scratched the surface, says Boeing Executive Vice President Richard Albrecht, the threat is clear and present.

"We have probably done a better job than the automobile industry in staying competitive and adapting to the marketplace," he says. But competing with foreign governments that subsidize aerospace firms represents a real challenge.

European governments, anxious to keep employment high, are willing to eat some of the costs of producing planes that are then "made available at competitive prices," Albrecht complains.

Gulfstream Aerospace in Savannah, Ga., a maker of business jets, finds that its competition is government-backed Canadian and European business.

The executive plane market has been in a slump since the recession, says Gulfstream spokesman Al Balaban. Gulfstream decided to *increase* its marketing efforts when other firms were calling in some of their salespeople. The decision has paid off in sales. But Gulfstream has an edge. Its planes are at the top of the line, where demand has been fairly constant. A Gulfstream III sells for $14 million and seats 14 to 19 people. In this product category, competition has been modest from domestic manufacturers, though foreign firms have crowded in aggressively.

"These companies compete in the United States because they don't have that big a market at home," says Balaban.

Some firms prosper by taking advantage of a small but profitable niche. Despite determined efforts by foreign pharmaceutical companies to deeply penetrate the American market, Alcon Laboratories in Fort Worth continues to do well.

Alcon makes specialized products for eye care—a market simply not big enough to attract foreign giants. There will always be room for small firms like his, servicing niches, President Ed Schollmaier says.

"By and large most of the pharmaceutical industry is dominated by the large corporations," he says. "They compete with each other internationally."

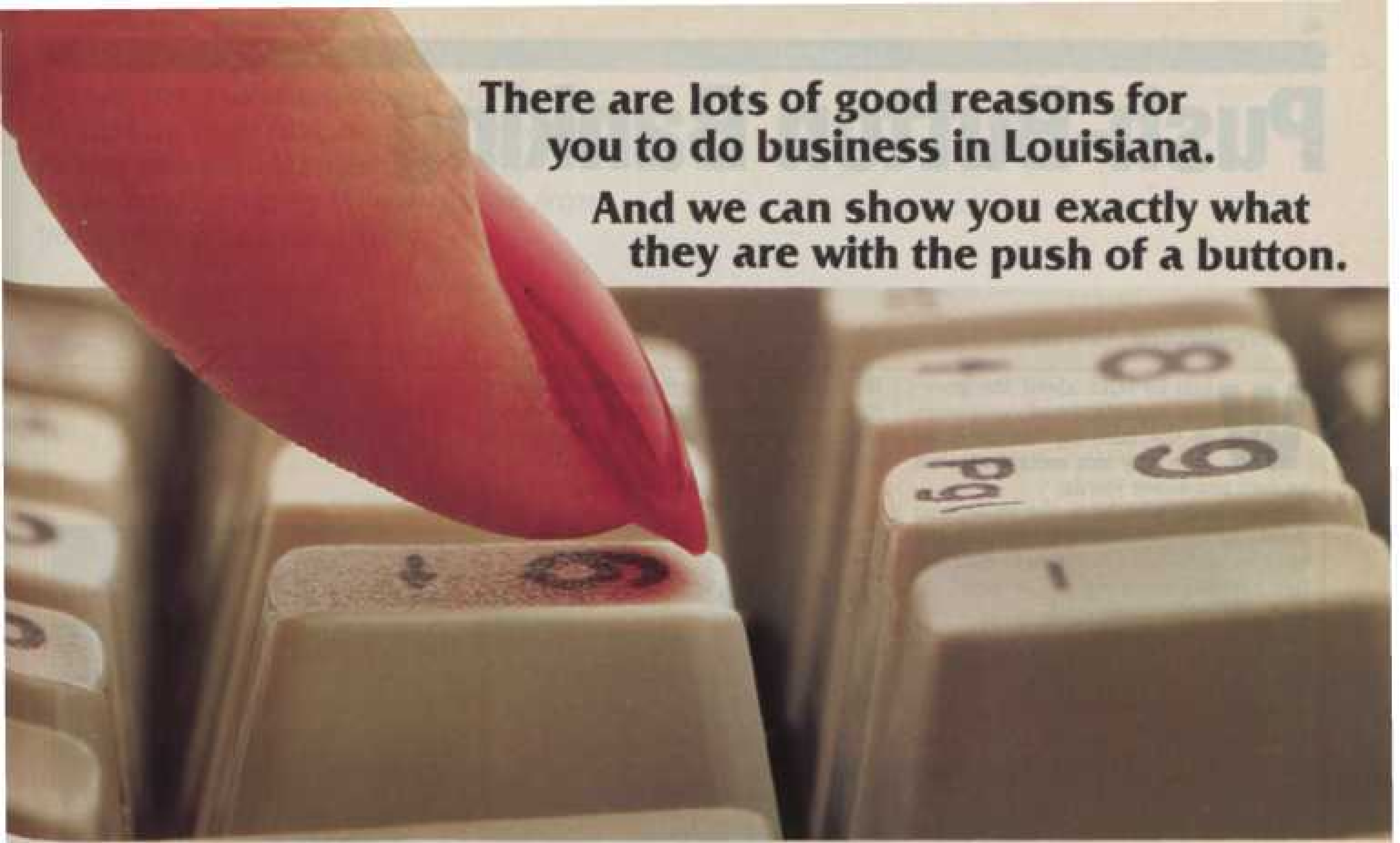
Merck and Company, with $3.5 billion in sales, is one of those giants. The New Jersey firm has about 9 percent of the domestic market, and it is holding its own, in spite of pressure from European and Japanese companies.

The United States continues to maintain pre-eminence in many medical product fields. Always strong in R&D, companies like Merck produce an array of products and market them effectively abroad. America customarily has a trade surplus in pharmaceuticals.

But, says Merck President John Huck, the American firms are having to struggle to maintain the foreign sales that give them economies of scale that help them keep prices competitive.

Huck and other executives whose companies are successful in meeting competition from abroad insist that the dollar must be brought into a more realistic relationship to foreign currencies—and that unfair trade barriers must be negotiated down.

They ask how long an American bike manufacturer, for example, can be expected to hold its own in a world full of situations like this: Korea maintains a 100 percent duty on U.S. bikes while the U.S. duty on Korean bikes is 6.5 percent. NB



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TECHNOLOGY

Push-Button Banking

By Mary-Margaret Wantuck

When he talks about the growing importance of computers in the banking business, Al Rice may mix metaphors, but he does not mince words:

"Somebody who bites the bullet and shoots all his antiquated systems in the head and goes to very efficient distributive network processing," he says, "is going to really have some advantages. Somebody is going to do it, and many bankers are watching with interest to see which one gets there first."

Rice, who is president of Bancsure Insurance Services, Inc., in Santa Monica, Calif., is one of those who are trying to do it.

His company started out to computerize the banking industry and ended up computerizing the insurance industry. It created a database of more than 135 auto and homeowner insurance plans authorized in California. The database allows a customer to compare plans for the best price and choose one without ever using a piece of paper. Terminals and agents for the system are located in the offices of financial institutions.

Because banks cannot own insurance agencies or brokerages, the Bancsure plan allows them to profit without participating directly in the fees generated.

Innovative services based on the speed and efficiency of electronics are changing the face of the banking industry. "All the large banks have antiquated systems," says Rice, and as a result, "provide a very poor quality service at a very high price."

All of them are trying to turn that around, to provide much better services to their business and consumer accounts at lower costs. It is one result of deregulation. The tool is the computer chip.

In the five years since major banking deregulation laws were passed, banks have invested more than $7 billion in electronic technology, according to a report by the investment banking firm of Salomon Brothers.

The report says that "the most successful banking organizations in the future will be those capable of delivering products and services at the lowest effective cost."

Lowering costs depends on customers—both business and consumer—who are willing to use computer terminals or personal computers to communicate directly with the bank.

William Petrarca of National City Bancorporation uses his company's card at a point-of-sale terminal in Cincinnati.

PHOTO: ROBERT FLISCHEL—PICTURE GROUP

A number of banks are marketing systems for managing company treasuries.

Manufacturers Hanover calls its treasury system Interplex. The software package runs on a personal computer and is linked to the bank's computer. It gives the company treasurer a detailed picture of the firm's cash position based on account balances, investments, day's receipts, checks presented for payment, when to borrow and how the company's investments should be handled.

Barnett Banks, the largest banking company in Florida, offers a treasury management system called Centrics, which was set up last May.

Centrics' 45 customers range from small to large, but Barnett believes the system is best suited to smaller companies, says David Strickland, senior vice president in charge of Centrics. "Large companies generally have the in-house capability to develop their own treasury work stations," he says. "Small firms don't, and we felt that their being able to buy off-the-shelf systems would be a big plus for them."

One of Barnett's Centrics customers is Gary Winters, comptroller/treasurer of Unit Distribution Co. in Jacksonville, Fla. Unit Distribution is a holding company for 13 related companies with $14 million in gross sales last year and 300 employes in five states.

Each of the 13 companies has two accounts, says Winters, and before Centrics, moving money from one account to another required checks, which were taken to the bank along with the day's deposits. Winters could only estimate when checks would clear. Also, arranging for wire transfers to distant company offices was expensive and time-consuming.

"We were interested in the system because we needed to move funds efficiently among the accounts without writing checks," Winters says.

He says the system has done what he wanted, and more:

"We use the computer to transfer the funds to our money market account,

Banks are rushing toward the future as fast as they can, and that means many more automated services, including banking by computer from your own business offices.

Treasury work stations, like this one created by Manufacturers Hanover, allow company treasurers to keep track of their firms' cash position every day.

PHOTOS: WERNER WOLFF—BLACK STAR

and hold it there until a check actually clears. The system costs us about $250 a month and we have gained that much in interest income so far. Plus it has freed up 10 man-hours—four of them my own."

The system will be adding a feature to allow Winters to find out in one work day what checks will clear the next. And electronic funds transfers will replace wire transactions.

Manufacturers Hanover's corporate customers are able to perform a number of international banking operations through a program the bank calls Transcend. A multi-currency funds transfer and information system that even issues commercial paper, it is used by 6,355 multinational corporate accounts in 77 countries.

But banks are going to measure new success in what they can do for consumers, and it is not yet clear how much technology consumers are willing to use.

The most widely used technology developed so far has been the automated teller machine, or ATM.

ATMs can dispense cash, accept deposits and give account balance information.

About 60,000 ATMs installed throughout the United States are either bank-owned or part of a regional or nationwide sharing arrangement. Bank of America owns the largest ATM network, with more than 1,200 machines. Each averages 11 million transactions a month.

According to the Bank Administration Institute, a nonprofit research and education organization based in the Chicago area, about 33 percent of all banking customers have used ATMs within the last year, and 25 percent use one every month. Almost 50 percent of those who use ATMs fairly regularly are in their 20s and 30s, have annual incomes of $45,000 or more and are sophisticated in financial matters. They will make two visits to an ATM for every one to a teller window.

Such customers are the most willing to use ATMs, which can be daunting to customers less receptive to new technology. Says Marjolijn Van Der Velde, an institute researcher: "The initial time is frightening," but "if a customer uses an ATM two or three times and the ice is broken, he is much more likely to continue using it."

The potential savings for banks and customers are enormous. A study done for the Federal Reserve Bank of Atlanta found that in 1983 ATMs accounted for 3.75 billion financial transactions (excluding balance inquiries). Of these, 2.8 billion were withdrawal transactions. This compares with an estimated 19 billion checks written that same year, so ATM withdrawals were equivalent to 14.7 percent of check volume—evidence that ATMs are making a dent in personal checkwriting.

A paper check transaction costs a bank four to five times more than an electronic transaction. First Bank of California's 140 ATMs charge customers 10 cents per transaction, compared with a check charge of 35 cents.

Automated tellers reduce costs significantly for banks. At National City Bank in Cleveland, transaction volume grew 11 percent between 1982 and 1984. "If we didn't have automated tellers, we would need two thirds more full-time personnel in our branches than we have today," says William Petrarca, vice president of electronic banking.

Banks can save on the costs of ATMs by combining into networks with other banks. California First Bank, with 200 other Western banks, is part of an ATM interchange called Star that includes 1,500 automated tellers. There are scores of such regional networks and six national ones. The advantage is that each bank does not have to deploy as many machines, which cost at least

Push-Button Banking


PHOTO: DIEBOLD

A prototype of an interactive system that allows customers to choose what kinds of services they want is being tried out by Banc One in Canton, Ohio.

$15,000 when placed inside a bank and as much $100,000 outside because of added costs of construction and protection.

Another important customer service banks are offering is point of sale funds transfer. POS transfers debit a customer's checking account directly for a purchase when entered on a special terminal at the sales counter.

About 50 established or pilot programs are now being conducted. First Interstate Bank, a California holding company with banks in 11 Western states, has several POS projects with major oil companies in which debit card transactions are treated as cash purchases. Customers get the discount offered for cash purchases and still have the convenience of a card purchase.

The consumers most comfortable with this kind of electronic funds transfer are already heavy users of ATMs, says the institute's Van Der Velde. She says one third of these customers already have some monthly bills debited directly from their accounts, and 20 percent have their payroll checks deposited directly into their banks. To these consumers, advantages of POS are that it eliminates checkwriting, is good for travel and provides the convenience and security of not having to carry cash. A disadvantage is that consumers want some kind of printed documentation for their records; now there is only a monthly statement without an itemized listing of purchases.

POS is not yet ready for widespread national application, says the Salomon Brothers report, and faces major stumbling blocks before it will be. A significant number of customers must prefer it to cash, check or credit card payment; it must become available at a large number of retail outlets; and retailers and banks must develop workable, long-term agreements on cost sharing.

Home banking, a logical outgrowth of the heavy use of personal computers and banks' desire to automate to save costs, has a long way to go before customers will use it. Home banking provides a customer with data such as account information and current investment profile through personal computers or special-purpose terminals linked to a bank.

About 50,000 households are now using home banking services. Several money-center banks—Chemical Bank and Citicorp, for example—have launched large-scale home banking sales campaigns. Industry obervers believe home banking will become a viable service by the end of the decade.

Another promising customer service is interactive video systems that allow customers to review alternative financial programs and to select one, all without having to talk to a staff person. "The system is perfect for people who are embarrassed about discussing their financial matters and baring their souls to a stranger," says Patrick Guidant, product planning manager for Diebold, Inc., a manufacturer of interactive video terminals.

Banc One in Columbus, Ohio, will install two of the machines in local branches next month. Bank of America has one in its Dublin, Calif., branch called "For Your Information." The customer tells the computer how much money he has to invest for a set period and then asks what he can do with the money. The computer lists options.

All these new services are helping even smaller banks to attract the kinds of customers they need in the more competitive atmosphere brought about by deregulation. Norman Hecht, president of the $300 million Madison National Bank in Washington, says the new technology has attracted to his bank an upscale customer who is more at home with technical sophistication.

That is the direction of banking, says Hecht: "The bank that is not moving toward the technology of tomorrow will be out of business tomorrow." NB

TECHNOLOGY

The Electronic Workplace

By Harry Bacas

Now, Choices In Pay Phones

That pay phone outside your business—are you getting revenue from the calls made on it? Would you like to get more? Somebody may make you an offer.

In the wake of telephone deregulation, a host of companies have jumped into the private pay phone market. AT&T and the local Bell companies are not standing still either. They are competing in products and in commissions paid to site owners.

Pay phones will take in $5 billion this year and are predicted to collect $12.5 billion in 1990.

Ross B. Scheer, president of National Pay Telephone Corporation, says, "If we get 1 percent of that $12.5 billion, that will be $125 million, but I think our share will be a good deal more."

His company looked first at coin-operated phones, a business Scheer understands well because he used to be marketing director for Bally, the world's biggest pinball manufacturer. But after a careful study, the company switched to credit card phones.

National Pay Telephone is installing charge phones first in Illinois, Florida and California in airports, hotels, convention centers and other high-traffic places.

The phones take major credit cards. First the phone reads the magnetic coding on the card, then a digitized voice says, "Please dial your number." A central computer (the most expensive part of the system) figures the cheapest routing (AT&T, MCI or other line) and the customer is billed for the call on his credit card statement.

National Pay Telephone offers site owners a higher percentage than the 5 to 8 percent of gross revenue the phone company pays. AT&T's response is to stress its experience, its reliability and its live operators.

But both AT&T and local companies are now considering raising their commissions in the most competitive pay phone locations. The local companies will still charge a fee for pay phones in locations where there is not much traffic but where business people want them installed as a service to customers.

"Location is the name of this game," says Marc Ostrovsky, publisher of *Private PayPhone News*, a new publication. A coin phone at a local convenience store can take in $700 a month, while a credit card phone at a hotel or truck stop may collect three times as much in long-distance charges.

"Answer supervision" is still a problem for private coin phones. Without an operator on the line, how does the phone know for sure a call has gone through so it can keep the money?

In one kind of phone, you put your coins in to talk only after your call is answered. In another, you put the coins in first, then push a button to talk after the call is answered. Some phones have timers: If you still have the phone off the hook 30 seconds after dialing, it assumes the call went through.

"Accuracy of 95 percent is not good enough," says J. Allen Hansen, president of the National Payphone Association. "If your phone gets 1,000 calls a month and 5 percent of them are people who paid for a call that did not go through, you've got trouble. Some of those people are going to try to tear your phone off the wall."

Phone manufacturers are close to a solution to the problem but haven't yet got a perfect answer.

PHOTO: RICHARD DERK

Ross B. Scheer's company is installing credit-card phones in airports and hotel lobbies.

Technology Notes

☐ General Computer Corporation is providing the software and NEC the computers for a system to automate retail pharmacies.

☐ A software package for chemical and materials testing laboratories is available from Radian, Inc., Austin, Tex., to run on an IBM personal computer.

☐ Eastman Kodak is entering the fiber optics field with a line of optical fiber connectors for field installation.

☐ Digital Communications Associates has the fastest modem yet. It transmits information between personal computers over ordinary phone lines at up to 10,000 bits per second.

☐ Instant Yellow Page Service, Omaha, Nebr., now provides online access to every Yellow Pages directory in the country.

☐ Semiconductor sales will fall 8 percent this year, says a Cahners Publishing Company study, but office equipment and computers will be up 13 percent, and communications equipment will rise 22 percent. A study by SRI Research Center says new laser printer sales will boost Hewlett-Packard and Texas Instruments market shares while former leaders Epson and Okidata will see their market shares drop more than half.

TECHNOLOGY

Finding Gold In The Ivory Tower

By Harry Bacas

Large industrial firms in Japan, Germany and the United States are working to develop cheap, lightweight plastic batteries that could power a new generation of electrically driven automobiles.

The key technology all are using—a way to make plastic hold an electrical charge—was discovered at the University of Pennsylvania. It was patented and then licensed to the industrial giants by a little-known U.S. company named University Patents, Inc.

University Patents, of Westport, Conn., the only company of its kind in the country, has exclusive contracts with leading universities to seek out patentable discoveries by their faculty researchers and find commercial applications for them.

L.W. "Bill" Miles, chairman of University Patents, came to the company in 1972 from International Business Machines Corporation, where he was director of commercial development. While at IBM, he had negotiated with the little firm to license several of its patents.

Today Miles' talent scouts roam the laboratories and workrooms of Princeton, New York University, the Medical College of Pennsylvania and the universities of Arizona, Chicago, Colorado, Illinois and Pennsylvania. When they find an idea or process or material that appears marketable, they apply for a patent and then look for companies, like IBM, that can use the invention to make a product under license.

University Patents divides licensing royalties with the universities. The company takes 40 percent to pay for patenting and administration. The universities share their 60 percent with the professors or researchers who made the discovery.

The company's biggest money-maker so far has been a patent on a process developed at the University of Illinois for making a bright, steady computer screen on a flat panel to replace the bulky cathode ray tube atop most computers.

This "plasma" panel is licensed to IBM, Fujitsu and others, and it has brought in more than $7.5 million in royalties in 12 years. If its high cost ($3,000) can be reduced, the panel will be usable on small personal computers, greatly increasing the patent's value.

L.W. Miles and Sidney Alpert on the University of Pennsylvania campus. Their firm patents its discoveries.

PHOTO: T. MICHAEL KEZA

Other patents among the dozens held and licensed by University Patents are chemicals to produce DNA for biochemical research, one component of a herpes vaccine, a soft bifocal contact lens, a photodynamic herbicide that uses sunlight to kill weeds, a human tooth substitute that attaches to the natural bone growth and a plastic rechargeable battery that is bulkier but lighter than conventional batteries.

"The batteries are not only very light but could be molded to fit inside a car's doors or into its headliner," says Sidney Alpert, president of University Patents, who came to the company with Miles from IBM. The plastic battery technology is licensed to Allied Corporation, Hitachi, Varta and BASF, which are working to develop uses for it.

University Patents was founded as a nonprofit organization in the 1960s at the University of Illinois with funding from wealthy alumni. In 1972, the university was looking for new management for the company. Miles and Alpert were approached about taking it over. They agreed on condition that they could move the offices to the East Coast, where both men lived with their families, and that they could take the company public.

Miles, a business executive with management background, is the company's "Mr. Outside," its chief salesman, strategic planner and Wall Street contact. Alpert, a patent attorney with technical background, is "Mr. Inside," the one who spends much of his time on university campuses.

After watching the formation of several lucrative venture companies on the basis of patents that University Patents licensed, the company several years ago decided to try its own hand at commercial development and manufacturing.

It owns 84 percent of University Optical Products, which recently began producing specialty contact lenses by a patented technique at a plant in Florida. It owns 62 percent of University Genetics, which operates divisions in such fields as animal embryology and skin tissue metabolism, and has developed a process to protect fruit and vegetable crops from frost damage. The startup companies last year put a strain on the parent's balance sheet, but that has not seemed to dampen buyers' enthusiasm for the stock on the American Exchange, where its price has held up.

University Patents has 90 employes, including five patent attorneys and six Ph.D.s in different sciences.

It is interested in signing up additional universities as clients but only those with substantial research and development budgets.

It costs a university nothing to enjoy University Patents' services. The company pays for digging out any inventions in university research and for the cost of patenting. Only foreign patent filings and litigation against infringement come off the top of license revenues before the 60-40 split.

Although University Patents has had little difficulty in raising capital for each new production enterprise, Alpert says, "we'd like to form a venture pool and not have to start up each time to find money. If we'd had such a pool in the past, we could have been an equity player in some cases where somebody else licensed our patents and made money hand over fist while we just got our 5 percent." NB

Office, Sweet Office

By David M. Freedman

Frances O'Neill runs her electronics design business out of her home and also is vice president of a home-based business support group that is trying to ease zoning laws.

Byron Anstine, of Paoli, Pa., is a real estate developer and syndicator whose current projects include a shopping center and an apartment complex. His business, launched five years ago, is doing very well, thank you.

Anstine's gross income varies between $150,000 and $200,000, he says—"and that's just about my net, because my expenses are so low."

When he talks of expenses, he means telephone bills and stationery, but not rent for an office at some prestigious business address. He operates out of his home.

Byron Anstine represents a trend in the national economy—the rise of the home-based business. Experts who have studied this trend estimate there are more than 10 million home enterprises today, 7 million of them nonagricultural. A decade ago the total was only 6 million, experts estimate. And they see more growth ahead.

Jack Nilles, who has done research on the subject at the University of Southern California, thinks the number will reach 20 million—at least—by 1990.

There are several reasons for this phenomenon.

One is the renaissance of entrepreneurial spirit that has seen so many Americans strike out on their own in business. In some cases, this has meant a part-time, after-hours enterprise. But—hard figures are not available—experts say the vast majority of home-based businesses are full-time endeavors.

Another reason is the growth of direct sales companies like Amway. Martin Lefkowitz, director of economic trend and statistical studies at the U.S. Chamber of Commerce, says direct sales distributorships rose 61 percent from 1977 to 1982, the latest year for which figures are available. But the 1982 total—766,000—was only a small portion of home-based businesses.

Still another reason is extension of life expectancy and better health in later years, coupled with early retirements.

And another is the increasing perception among business people that they can cut costs by contracting out work to specialists in various business services, such as research or tax accounting. Lefkowitz says the number of self-employed providers of business services almost doubled—to 1.2 million—in the five years ending in 1982.

Sparking this growth, Lefkowitz says, has been the availability of the personal computer, which enables business people to draw on information

David M. Freedman is a Knoxville, Tenn., free-lance writer who specializes in business and legal subjects. He operates from his home.

Home-based businesses are proliferating, and all the signs point to more growth.

sources once unreachable from home. PCs facilitate proliferation of other types of home-based business, too. They enable the small firm to process and store information more efficiently, reducing the need for space and clerical employes. (And their widespread use has created healthy demand for free-lance computer programers, many of whom work out of their homes.)

Advances in telecommunications, including install-it-yourself wiring, jacks and adapters, have also enabled home businesses to use time-saving devices and conferencing techniques formerly affordable only by larger companies.

Combined with the growing number of telecommuters—people who work at home but are not self-employed—home-based business people have become a significant market segment for communications equipment suppliers. Says Arthur Friedman, executive director of marketing and product management at AT&T Consumer Products: "Providing products for work-at-home consumers is perhaps the fastest growing area of the communications market today."

Home-based business is, of course, not new to this country. It has long been common among professional practitioners—medicine, dentistry and accounting, to name three types—and craftspeople. And many big companies—Apple Computer and Hewlett-Packard come immediately to mind—got their starts in homes or home garages.

But today the variety of home-based businesses is greater. They range from architect to free-lance anthropologist, from electronics designer to importer-exporter, from nutrition consultant to supplier of secretarial services.

And many home-based business people do not intend to leave home even if their companies become big.

Byron Anstine, who went into real estate development after 12 years of practicing law, says:

"I started my real estate business at home originally for economic reasons, just to make sure I could get it off the ground. But now that I'm used to it, I'd find it difficult to work with a lot of people around. The isolation allows me to think creatively." His wife and three children respect his privacy while he is working, he says.

Problems with antiquated or inadequate zoning regulations often plague those who start home businesses. John DeShazo's neighbors objected after he and his wife, Rosemary, moved his dental office into their home.

As he becomes more successful, Anstine anticipates need for a staff, including leasing representatives, construction managers and clerical help. "I'll set them up in an outside office, but I'll keep my personal office here at home and visit my staff once a week or so," he says.

Locating a business in the home, whether that is the goal itself or a means to an end, offers fundamental advantages. One of the most commonly cited is the opportunity to spend more time with family members. "My working long hours outside the home was hard on my family," says Anstine. "Now when I want to take an afternoon break I can go out in the backyard and throw the Frisbee with my 15-year-old. And I eat lunch with my wife almost every day."

Basing a business at home also benefits people who have physical handicaps that make it difficult to commute or work in a typical office. In 1971 Coralee Smith Kern, of Chicago, a divorced mother of two, became unable to work outside her home because of a disease called lupus. She started a maid service in her basement, and by 1981 Maid-to-Order, Inc., had 400 employes and annual gross revenues of $250,000. The company provides general cleaning services, food servers and bartenders for upper crust Chicagoans and many corporate apartments.

Kern, who still operates the business out of her home, is a leading advocate of the home-based business movement. She is executive director of the National Association for the Cottage Industry.

Working at home offers tax advantages, too.

"You can write off some of the expense of maintaining your household," says Marilyn Salmieri, a home-based certified public accountant in Westport, Conn. "You can deduct part of your

Coralee Smith Kern had to deal with the stereotype that home businesses were hobbies when she started Maid-to-Order in her Chicago basement.

rent or mortgage payments, utilities, telephone and automobile maintenance expense in proportion to their business use. You may be able to take tax credits on equipment or furniture you purchase for your business. And in some cases it may be wise to depreciate the value of your property."

David Child, who runs a home-based word processing service in Chicago, says he enjoys the flexible hours. "I take time off in the afternoons to coach my kid's soccer team," he says, "and then I can pick up my work again in the evening without having to commute back and forth to an office."

Mabel Johnson, owner of Small World Miniatures in Knoxville, Tenn., which sells dollhouses and furnishings for hobbyists and collectors, wants to move her shop into a mall. But until she can afford to do that, she is content with doing business at home.

"I don't have a shoplifting problem here," she says. "With so many small items lying around the store, I'd worry about shoplifting in a commercial area, where lots of people stroll in just to browse. With the shop in my home, I get less traffic, but the customers who come out here are looking specifically for miniatures."

PHOTO: T. MICHAEL KEZA

There is a down side, of course, to operating a business at home. Many consumers feel that home-based business people are not as professional or as competent as those who work in downtown offices. "Some people assume that I'm not full-time, or that they should get a cheaper rate because I don't have the overhead of an outside office," says accountant Salmieri.

Kern says that when she started Maid-to-Order, she encountered the stereotype that home businesses are mainly craftspeople trying to make a little extra income—or that they are too lazy to go out and get a *real* job. She resented such sentiments. After all, "I was a businesswoman, trying to earn a living and support children," she declares.

Now, she says, "as the movement grows, it's becoming more acceptable to operate a business at home. That's expecially so for men, whose role models have traditionally worn a tie and carried a briefcase to the office."

Whereas some people enjoy working at home because it allows them more contact with family, "the other side of the coin is that family, friends and neighbors sometimes disrupt your business schedule," says Eileen Johnston, an accountant who practices in her apartment in Beverly Hills, Calif. "I had to train my friends and neighbors as to when I can socialize and when I can't."

Says MacKinlay Zimmermann, who produces artistic pottery of his own design at his home in Knoxville: "I've had to learn to live with disruption, especially from my family. My family comes first. I build my work routine around them, because if I don't, it creates a lot of tension. So I've learned how to implement intensive periods of work around the disruptions."

Another disadvantage, says Zimmermann, is that you may find it difficult to leave your work behind at the end of the day when you see it all around you. He has a studio in his garage, a kiln in the backyard and a showroom inside the house. "I'm always working," he says. "It's hard to get away."

A common complaint from home-based entrepreneurs who formerly worked for large companies is that when they are isolated at home, with food and television readily at hand, they have trouble maintaining disciplined work habits.

"I don't have those problems," says real estate developer Anstine. "When you have as much money borrowed from banks on construction loans as I have, you have no trouble getting motivated."

Loneliness is often a problem. "The antidote for isolation is networking," says Kern.

"Join professional organizations in your field," she says. "Get involved in community activities. Maintain your professional contacts and schedule lunch appointments with those people

To Learn More

Following are good sources of information and help for the home-based business person:

- The National Association for the Cottage Industry, P.O. Box 14850, Chicago, Ill. 60614; (312) 472-8116. Coralee Smith Kern, director. Conducts regional conferences featuring management seminars specifically for home-based business owners. The association also publishes a newsletter, *Mind Your Own Business at Home*. Has more than 2,500 members.
- The National Alliance of Home-based Businesswomen, P.O. Box 306, Midland Park, N.J. 07432; (201) 423-9131. Marie MacBride, staff administrator. Holds annual meetings featuring management seminars and publishes a newsletter, *Alliance*. About 10 percent of the 1,400 members are men, which may lead to a name change for this organization.
- Center for Home-Based Businesses, Business Assistance Center, Truman College, 1145 West Wilson Avenue, Chicago, Ill. 60640; (312) 989-6112. Leslie W. MacDonald, director. A clearinghouse of information on home-based business issues; provides assistance to home-based business people by mail, phone or in person. The center also sponsors craft shows and presents workshops on starting and operating mail-order, day care and other businesses in the home.
- U.S. Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-6555. Provides training, counseling and financial assistance to the small business sector. Publishes the free booklet, *Home Businesses*, which includes an extensive bibliography, available from the SBA office at P.O. Box 15434, Fort Worth, Tex. 76119; (817) 334-3777.

as often as you can. Keep in touch with other home-based business people."

Regulation is a problem, too.

Most regulation of home-based business stems from local zoning ordinances, though some states have laws prohibiting home production of certain potentially dangerous products, such as fireworks, foods, medical products and toys. Would-be home-based business people are advised to check with their state's department of labor, or another appropriate agency, to determine what restrictions apply.

Zoning ordinances vary greatly from one jurisdiction to the next. Most zoning commissions establish one or both of the following for residential areas:

- Inclusionary ordinances that list the types of business allowed to operate in homes.
- Impact-based ordinances that set standards a business must meet to be legally home-based. For example, the business must not show visible evidence of being a commercial enterprise; neither may it change the neighborhood's residential character, emit loud noises or obnoxious odors, nor disrupt traffic.

John W. DeShazo, a Huntsville, Ala., dentist who had an office in a shopping center for 10 years before moving it into his home in 1980, was forced by the local zoning board to fire two full-time employes, a clerical worker and a technical assistant. He took the case to the Alabama Supreme Court, to no avail. A neighbor had complained that the presence of the employes, who drove to DeShazo's home every day and parked in front of his house, disrupted the neighborhood's tranquility.

DeShazo, whose wife now works with him—they have hired a housekeeper because Mrs. DeShazo can no longer keep up with housework and their four children, aged 4 to 9—resents the city's interference. He says his home-based business benefits the community in several ways.

For one thing, he says, he spent $40,000 on improvements to his home before opening his practice there, raising the property value. For another, the fact that he is home during the day and his patients come and go, in an area where there are many two-income families, helps prevent crime in the neighborhood.

"But it's understandable that some people get nervous when they perceive a threat to the biggest investment of their lives, their homes," DeShazo says. "I recommend to people who start businesses in their homes that they talk to their neighbors and explain what an asset the business will be for the neighborhood, and that it won't cause any disruptions. Most cottage industry people maintain their residences with pride."

Carol Kaufman, who until last summer operated a computer software business in her Chatham Township, N.J., home, was less fortunate than DeShazo.

Her local zoning ordinance prohibits all home-based business except licensed

medical practices. Kaufman says that although there are dozens of home-based businesses outside the medical professions still operating in the township—some of which advertise in the Yellow Pages—the township denied her a variance and forced her to move the business out of her home.

"The lesson I learned," she says, "is that it's O.K. to break the law as long as your neighbors don't complain.

"I used a computer in my basement, and I think that's what bothered my neighbors. It's a fear of the unknown. One of them stood up at the hearing before the zoning board and said, 'I have to commute to work, why shouldn't she?' "

Kaufman, a divorced parent, now rents an office a few minutes from her home for $900 a month. She must pay a housekeeper to take care of her 3-year-old son during the day. Her annual revenue is about $36,000, and with two employes she is operating at a loss. "But I'm going to make it," she says.

Frances O'Neill, first vice president of the National Association of Home-based Businesswomen, has drafted a model zoning ordinance that the NAHB hopes will be used locally to persuade zoning commissions to change ordinances.

O'Neill, who works out of her Bethel, Conn., home as an electronics designer, served eight years as Bethel's planning commissioner.

"The model is an impact-based ordinance which says, in effect, if it doesn't bother the neighbors, who cares," O'Neill says. "Inclusionary ordinances are always behind the times, because new occupations emerge every year that aren't included in the list of permissible ones."

O'Neill concedes that "a good ordinance protects the community as well as the rights of home-based business. Under the model ordinance, for example, any business that requires a visible commercial facility would be prohibited in a residential-zoned area. The biggest concerns in most communities are appearance and traffic."

Marc Behr, an Edison, N.J., attorney who is co-chair of the National Alliance of Homebased Businesswomen's legislative committee, says that unions will resist ordinance changes in some areas because "home-based businesses' workers are impossible to organize." An AT&T Consumer Products survey shows that about one third of home-based enterprises have employes who are not members of owners' families.

Kern, of the National Association for the Cottage Industry, offers a tactical ploy based on the trend toward more and more home-based business and the trend's impact on the economy:

"If many entrepreneurs are operating out of their homes illegally in your area, say to your zoning commission, 'What if all the illegal home businesses in this community were shut down? The unemployment would be terrible.' " NB

To order reprints of this article, see page 81.

PERSONAL

For Your Tax File

By Gerald W. Padwe, C.P.A.

The Old Rabbit Trick

The IRS is suspicious of captive companies; be careful when you pull a chinchilla out of a hat.

If a rabbit has a sign around its neck saying "chinchilla" and is in a cage labeled "chinchilla cage" and is eating from a dish labeled "chinchilla food," can it be considered a chinchilla for tax purposes?

No, said one U.S. Tax Court judge; it's still a rabbit.

The judge was using his metaphor to sort out the Internal Revenue Code's sometimes murky views of "captive" insurance companies and "economic families."

There is an accelerating trend toward self-insurance (57 percent of companies recently surveyed by Health Research Institute underwrite their own health insurance). A firm that self-insures will often set up an insurance subsidiary and deduct, as an ordinary and necessary business expense, payments of the premiums to its subsidiary.

Although the Internal Revenue Service has never satisfactorily defined what insurance is for tax purposes, the premium's deductibility hinges on shifting the risk from one party to another.

Consequently, the IRS views with a jaundiced eye any captive company, regarding it as part of one economic family (the agency introduced that term in 1977).

The specific case that brought out the judge's foray into zoology involved a slaughtering and meat processing operation that self-insured its workers' compensation obligations.

The firm set up a captive insurance company as a wholly owned, second tier subsidiary. The parent company then bought insurance from an unrelated insurance company, which in turn reinsured over 90 percent of the risk with the parent's captive.

The judge agreed with the IRS that the parent company had not shifted the workers' compensation risk to an unrelated party. Therefore, more than 90 percent of the premiums were not deductible.

The way out of this problem seems to be exceptional care in setting up a subsidiary insurance company—and some luck in finding a judge who agrees that your business family is not an "economic family."

PHOTO: TIM HATLEY

Gerald W. Padwe is national director–tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

Imputed Interest Update

Complex 1984 rules on seller-financed transactions provoked a storm of protest because they affected so many real estate transactions between individuals.

Where interest charged by the seller was below market rates, a portion of the purchaser's principal payment would be treated as interest for tax purposes, thus accelerating income—and tax—to the seller.

Congress passed temporary legislation last fall to exempt transactions in which the amount borrowed was less than $2 million. The temporary rules expired June 30.

The latest congressional action—though not yet final—treats a 9 percent interest rate as adequate for loans up to $2.8 million.

Where the seller financing is more than that amount, the maximum rate considered acceptable is the average yield on Treasury obligations with a similar time to maturity.

A higher rate applies to sale-leaseback arrangements, however.

Giving And Taking Away

Occasionally, the IRS has to take a few marching orders from other government departments. The Labor Department is charged with interpreting the 1974 Pension Reform Act, which prohibits a sale between a pension or profit-sharing plan and an employer.

Labor told the IRS that an employer cannot contribute property instead of cash to such plans. The department says that the effect of such a contribution is the same as if there had been a cash contribution that was used to buy the property from the employer. That would make it an indirect sale, but a sale nevertheless.

The department says, however, that pension plans to which the employer must contribute are different from profit-sharing plans with discretionary contributions from the employer. A contribution of property looks less like an indirect sale when there is no requirement to contribute the cash in the first place. The department says it is working on a class exemption that allows property contributions to at least some profit-sharing plans.

Certain exceptions to the rules already permit contributions of employer stock and real property, but an employer contemplating a property contribution should also remember that the transfer is a taxable transaction.

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PERSONAL

Strategic Investing

By Mark O'Brien

Smith Barney's James Nevels says the yield on municipal bonds now is "quite amazing."

PHOTO: T. MICHAEL KEZA

Taxes have played too big a role in investor thinking. That is one message from President Reagan's tax reform plan and the other proposals that are competing with it in Congress.

Detailed changes in the tax law will be a long time coming. You don't change 5,100 pages of Internal Revenue Service interpretations in a hurry. And some provisions in the various tax reform plans may never be adopted.

But smart investors will recognize the fact that the market is likely to anticipate tax law changes, and individual strategies should be revised accordingly.

The single most important maneuver is this: Look at an investment on the basis of its economic merit, not after-tax consequences. It is an old-fashioned notion, one that calls for some re-arranging in the investment portfolio.

"There's a cloud of uncertainty over all tax-advantaged investments," says Stephen H. Green, a Philadelphia tax lawyer. "I have seen a number of deals that simply have no buyers."

The most aggressive tax shelters went too far for the IRS. Some investments in oil, gas, real estate, cattle ranches, mushroom farms—the list goes on—offered deductions as high as five times the cash outlay. The number of people claiming partnership losses rose more than 400 percent from 1963 through 1983. In 1983 alone, according to the Treasury Department, the total claimed in partnership losses was $60 billion.

Now much tax shelter money will have to look for a new home. It is likely to wind up in more conservative shelters and traditional stocks and bonds.

Transco Exploration Partners is a master limited partnership—a new type of shelter suited to the new tax environment. This MLP was created by its parent, Transco Energy, to ward off unfriendly takeovers. Union Oil and Enserch are other big oil companies that have started MLPs in order to get Wall Street to recognize the full value of their oil and gas reserves.

Instead of shares of stock, they have units of partnership. The units are traded on the major stock exchanges, so that liquidity is not a problem (a stumbling block with many big write-off shelters). The tax loss and return is different for each MLP, but in the case of Transco Exploration Partners, the tax loss is in the neighborhood of 10 percent and the return on capital is as high as 10 percent. The total after-tax return is in the 17 percent range for the investor in the 50 percent bracket and the 14 percent range for the 35 percent bracket.

The returns may be less attractive than the 4 and 5 to 1 write-offs promised by the most aggressive tax shelters. However, the master limited partnership like Transco makes sense economically even without the tax benefits—something you should always look for in a shelter.

The stock and bond markets look good, regardless of what happens with the tax law. Inflation-adjusted returns are at an unprecedented level. The real return from bonds (Moody's AAA bond yield minus the consumer price index) has ranged from 4 to 7 percent since

Mark O'Brien is a Philadelphia investment adviser.

A special report on where to put your personal funds—in stocks, bonds, shelters or what have you—in an age of tax reform.

More money is being made in owning and operating existing properties than in constructing new ones.

PHOTO: T. MICHAEL KEZA

High-dividend companies are more attractive when inflation is low. Utilities like Bell Atlantic—the scene is at its New Jersey Bell subsidiary—are among them.

PHOTO: MARIO RUIZ-PICTURE GROUP

1981. This compares with a negative real rate of return for much of the 1970s and about 2 percent during the 1960s.

As for stocks, the quality of corporate earnings has dramatically improved. The profits are real, not the inflation-induced creation of depreciation and inventory accounting. Higher quality earnings should translate into higher stock prices.

Municipal bonds, which are tax-free, have been an extraordinary buy. They traditionally pay 60 to 75 percent of the taxable Treasury bill rate, but recently they have been paying as much as 85 and 90 percent.

James Nevels, a lawyer and investment banker with Smith Barney in Philadelphia, says municipal bond yields reflect the uncertainty over tax reform. "Yields are definitely higher than they would be without the proposed tax programs," says Nevels. "For a municipal to pay 90 percent of the Treasury rate is really quite amazing."

Many municipalities have added features to protect the investor from being locked into a low yield during periods of high inflation. Hagerstown, Md., for instance, recently offered a tax-free bond that matures in 2012.

Every six months, the bond's interest rate—called the coupon—is reset to reflect the market level of interest rates and, indirectly, inflation. At the time the coupon is being reset, the investor can return the bond to Hagerstown and get the principal back. The investor is certain to get his full principal on short notice, and he does not have to outguess the direction of interest rates to get a market rate of return.

Is tax reform going to abolish all tax-free bonds? No. Towns and cities will always need sewers, schools and roads, and municipal bonds will pay for them. What are being phased out are industrial revenue bonds—so-called private purpose bonds. These bonds were supposed to revitalize local economies by financing the building of steel mills and such, but they often wound up financing pizza parlors and ski slopes. The Treasury disallowed some private purpose bonds in 1984, and the Reagan program, if passed by Congress, would end the tax-exempt status of the rest.

Under the current tax code, municipal bonds are a progressive investment: The richer you are, the better the after-tax return you get. The investor in the 30 percent tax bracket makes the equivalent of a taxable 14 percent on a 10 percent municipal bond, but the investor in the 50 percent bracket makes the equivalent of 20 percent on the same bond.

A lower top bracket, as called for in all major reform proposals, would democratize the benefit of municipal bonds. A well-designed executive portfolio, which typically might hold 50 percent of its assets in municipal bonds now, could drop that to 40 percent.

There is a curious movement in the stock market: It is getting smaller. Hundreds of large, investment grade companies repurchased some of their own shares last year. That is on top of Chevron's purchase of Gulf, Texaco's purchase of Getty, GM's purchase of EDS, Beatrice's purchase of Esmark, IBM's

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The Internal Revenue Service has been trying to curb the more aggressive tax shelters, such as mushroom farms, that have attracted investors by offering extremely high deductions.

PHOTO: JOHN BLAUSTEIN-WOODFIN CAMP

purchase of Rolm and Capital Cities' purchase of ABC. The supply of investment grade stocks is shrinking while demand for them grows. The effect is to support blue chip stock prices. Investors in companies that are acquired or that purchase their own shares do very well, as these companies' stock prices can make dramatic overnight moves. Atlantic Richfield's price, for instance, shot from $48 to $60 when the company announced its plan to buy 30 percent of its shares and increase its dividend from $3 to $4.

What kinds of companies are most likely to buy back their shares? Companies that have little debt and are therefore able to increase it, companies that have lots of extra cash, have a stated desire to remain independent and want to reward the holders of their stocks. Monsanto, Burlington Northern, Union Pacific and Dresser Industries are big companies, rich in assets and flush with cash; they could buy back their shares to drive up prices and ward off raiders.

With inflation currently low, look for companies that pay high dividends. Utilities like BellSouth, Northern States Power, Southern Company and Commonwealth Edison provide yields in the 7 to 10 percent range. Most economic forecasts call for inflation to remain at about 4 percent through 1986. With a 10 percent yield, that is 6 percent real money. Any move up in the stock price is a bonus over that.

Moderate inflation clearly changes investment survival tactics so painfully learned during the 1970s. By and large, the trick is to find companies that grow by selling more units rather than by raising their prices. Why? It is difficult to raise prices during a period of low inflation. But if your company can sell more units, it will still be able to grow. Emerson Electric, Genuine Parts, Rockwell International and Anheuser Busch are example of companies that are dependable performers, growing year after year despite the ups and downs of the economy. Their prices will probably be bid up.

Stocks of emerging growth companies, which offer the possibility of capital gains at the expense of current income, went under a cloud as a result of the November, 1984, Treasury tax reform proposal. Under that proposal, which was a precursor of the present administration tax reform plan, a combination of inflation indexing and ordinary income tax would have replaced the favorable long-term capital gains rate. The President's plan keeps the capital gains rate, even improving it slightly. All of a sudden, small growth companies like Xicor, Cullinet and Evans & Sutherland look attractive again.

The corporate income tax would drop from 46 percent to 33 percent under the administration's plan. For smokestack industries the reduction would be no help, because it would be accompanied by elimination of the investment tax credit and accelerated depreciation—important to chemical, paper and forest product, aerospace and other companies that require capital investment in plant and equipment. The result could be speedier national drain of capital from heavy industry. Computer, food, trucking, drug, tobacco and some service companies would benefit from the changes.

However, banks currently pay a relatively low rate of federal income taxes. If suddenly they had to pay a flat 33 percent, earnings could tumble in a sector already weakened by foreign debt and too much competition. Service companies that really do stand to benefit from the flat 33 percent corporate rate include Sysco, Community Psychiatric, Associated Dry Goods, K mart and Macy's.

Service companies are attractive today for another reason. They, as well as certain manufacturing companies, rarely suffer from foreign competition. It is one thing for the Japanese to sell us cars, another to sell us funeral services (the niche for Service Corp International), weapons for national defense (companies like Tracor, Loral and Rockwell) or information (media firms like Dun & Bradstreet and Time, Inc.).

The strong dollar has weakened companies exposed to foreign competition because it makes their products expensive abroad and foreign products cheap in the United States. The dollar appears to have ended its climb. However, it still has a long way to fall before it would be much help to companies dependent on foreign markets. Better to buy stocks of companies whose services or products are protected.

The U.S. stock market makes up 55 percent of the capitalization of the world's stock markets. It dwarfs any

other single market and offers the greatest stability, liquidity and variety. But there are reasons for owning shares in other markets. When the U.S. market is down, others are up. The foreign markets, with the exception of the Canadian, are independent of the U.S. market.

During 1984 the Dow Jones Industrial Average declined 3.74 percent while the French market was up 16 percent, the Hong Kong market was up 37 percent, and the British market was up 23 percent.

The deal is to buy foreign holdings when the dollar is strong and sell them when the dollar is weak. This currency play gives an up foreign market a double boost for the U.S. investor. Of course, declining foreign markets and a strengthening dollar cut the other way. But the dollar began a decline in February, and most market observers agree it will continue to decline against the major foreign currencies.

How do you invest in the Hong Kong market, let alone know which stocks are going up there and which are going down? The simplest thing is to consider international mutual funds like Merrill Lynch's or Scudder Stevens & Clark's. Such funds have security analysts scouting international markets. The funds are large enough to offer diversification should any market collapse. Also, the funds are liquid; you can get your money out in a hurry.

Closer to home, the commercial real estate industry is under pressure. During the inflationary 1970s, pension funds, banks and insurance companies turned to real estate projects to hedge against chronic hyperinflation. The result was often construction spawned by investor dollars, not market demands.

Now, with the flood of office and apartment buildings on the market, more money is being made in owning and operating existing properties that have rent-paying tenants, than in constructing new properties.

IRAs, 401(k)s and Keogh plans have made investors out of a lot of Americans who never thought they had enough money for the stock and bond markets. The big attraction is the source of the money: pretax dollars that, in part, would just go to the tax collector. The fact that the money is allowed to grow, free of taxes, is an argument in favor of high yielding bonds. Zero coupon bonds, which allow you to lock in a yield without worrying about the reinvestment of interest payments, make sense during a period of high interest rates.

There are strings attached to IRAs, 401(k)s and Keogh plans. You are not free to use the money as you want. You cannot, for instance, withdraw money accumulated in an IRA to buy a small business in 10 years, without paying a substantial penalty for the withdrawal. There is a question of continuity: The government created these plans, and it can uncreate them. They are no substitute for your own investment plan. NB

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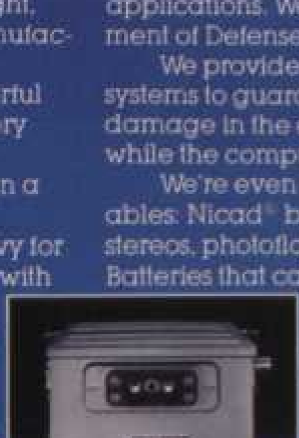

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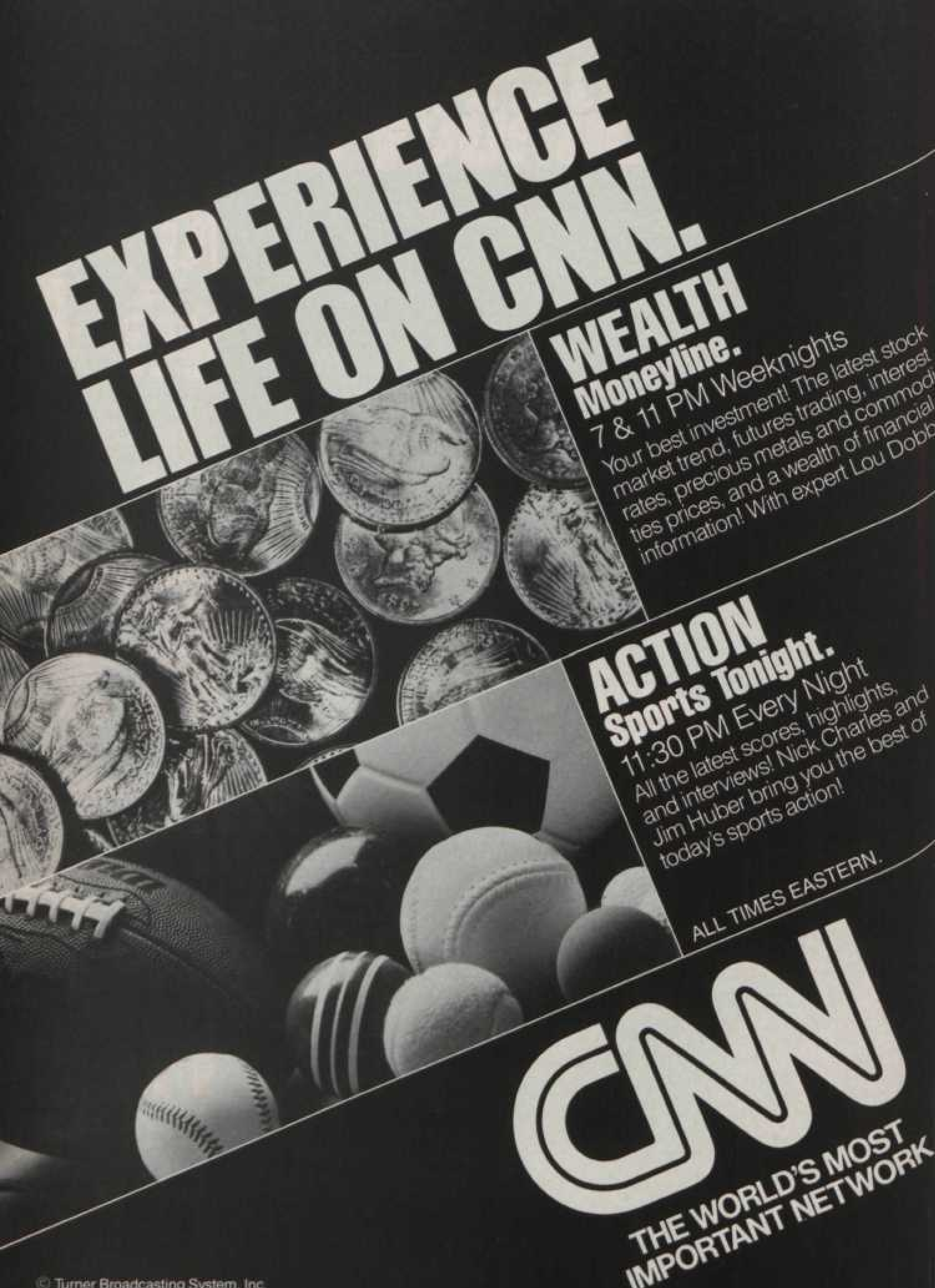
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"THE DAY I STOLE THE ACCOUNTANT'S COMPUTER"

by Suzanne Falter, copywriter

I'd been sitting at my typewriter for five years – writing, rewriting, and rewriting. One day, I'd finally had it. So I walked over to the accountant's desk, and stole his computer.

I plugged it in, and switched it on. It started to hum. The computer asked if I wanted to talk words or numbers. I opted for words. Then it offered me the choice of English, French, Spanish, or maybe Italian.

I chose English to save time. This program seemed to understand me, though I'd never spoken to a computer before. "*Move paragraph*" I'd say, and it would. We were talking like two adults, in nouns and verbs. And so, I wrote.

I edited. I deleted. I even switched paragraphs around. Then I hit the wrong button. Suddenly, the accountant's projected budget for '86 filled the screen with pie charts. Clearly, this was not just some little word processing program.

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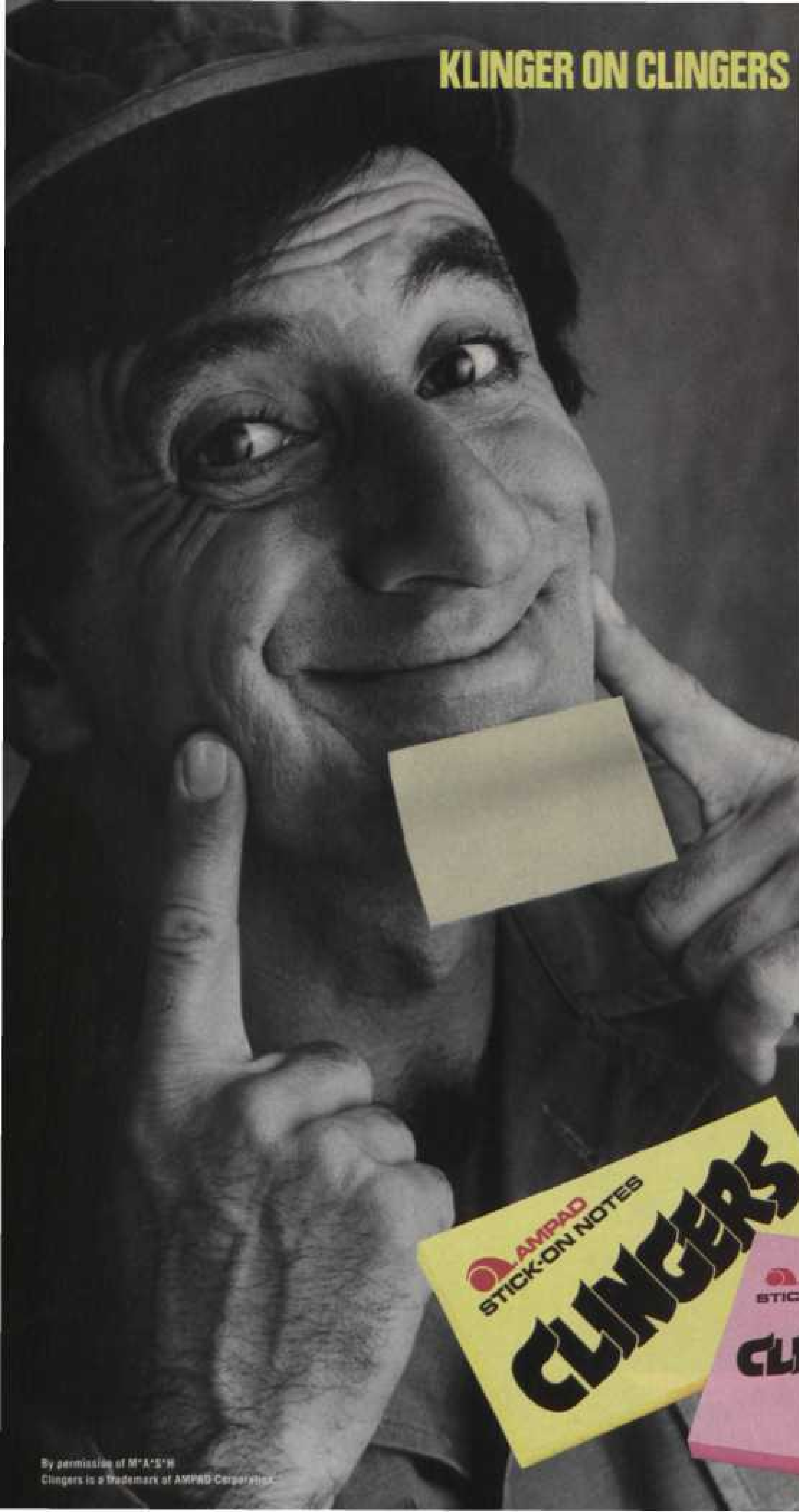

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AMPAD

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MAKING IT

Marketing To The Working Woman

Stores try new ways to merchandise to busy customers.

By Nancy L. Croft

A seminar with Estée Lauder's Ida Stewart brought in more than $17,000 in direct sales for Belk Matthews' Macon, Ga., store.

PHOTO: HUDSON BELK

As more women trade their shopping bags for briefcases and spend their days at the office, they have less time for shopping. Department stores, which have depended on women shoppers, now need to get busy working women to come in to shop in their spare time—lunch hour and evenings. Ross Associates Speakers Bureau, Inc., has a solution. The New York-based company helps stores entice working women with speeches made by celebrity women. When the speech is over, store managers hope the audience will be enticed by the stores' merchandise.

Ross Associates started out as a mid-life career change 4½ years ago for Blanche Ross, president, and her cousin Dee-Ann Mernit, vice president. Both were 56. Says Blanche: "I was what's known as a professional volunteer." She devoted her time to everything from the League of Women Voters to being chairperson of the women's division of the Greater New York United Jewish Appeal. But after years of volunteer service, "I had volunteer burn-out," she sighs.

Mernit, a kindergarten teacher for 17 years in Long Island, had "kindergarten teacher burnout. I just could not take off one more pair of boots," she recalls. She quit her job and teamed up with Ross to start a business.

After doing some checking, they found there was not a speakers bureau that featured women. Two weeks later Ross and Mernit were in business. With one telephone between them, they began to call prominent women to represent. Their list now boasts more than 400, including Dr. Joyce Brothers, Dr. Ruth Westheimer, Marlo Thomas, Pearl Bailey, Phyllis George Brown and Geraldine Ferarro.

Dee-Ann Mernit (left) and Blanche Ross of Ross Associates are working to put women "on a podium, not a pedestal."

PHOTO: WAYNE SORCE

Its speakers' fees range from $2,500 to $20,000, and Ross Associates receives a 25 percent commission on each booking. Ross and Mernit have arranged programs for Macy's, Gimbels, J.C. Penney, B. Altman and Joske's.

Conventional retail stores "have to do more for customers by giving them something that will enrich their lives," says Dan Roy, advertising director for Belk Matthews stores. "We're being invaded by discounters."

Roy used Ross Associates to set up a two-day seminar to attract working women to his company's Macon, Ga., store. The seminar, held last February, featured Ida Stewart, vice president of Estée Lauder, Inc., who instructed the audience on how to achieve the right look for business. *New York Times* columnist Jane Brody spoke about nutrition and *Working Woman* magazine Editor-at-large Kate Rand Lloyd advised the audience on how to combat job stress and burnout and increase productivity.

Roy says 300 people attended each of the seminar sessions, which were held in a nearby auditorium. "We did over $17,000 in direct sales attributable to the seminars," says Roy. Other Belk stores have booked the program.

Dr. Joyce Brothers, who recently spoke at Gimbels Pittsburgh for Ross Associates, applauds stores' increasing awareness of the working woman: "We are more than just shopping creatures, we are thinking creatures."

Through its offices in Washington, Cleveland, Denver, Los Angeles and Miami, Ross Associates peddles its motto, "Put A Woman On A Podium, Not A Pedestal," to corporations and organizations. But, says Mernit, "we are not sexist." The bureau also offers a speakers list of 63 "Men of Distinction," ranging from Marvin Hamlisch to William F. Buckley, Jr.

"But if there's any way that we can put a woman on the podium instead," Blanche chimes in, "we try, because getting their salaries commensurate with those of men is one of our goals."

MAKING IT

Paddling His Own Canoe To Profits

"This was not going to be a let's crawl, then walk, then run and then fly operation."

Jan Dorfman got the same message in his fortune cookie three times: "You take most pleasure in doing those things that people say you cannot do." He decided the cookies were smart, and he built the first successful multipurpose boat—one you can sail, row, canoe, use for duck hunting or fishing and even as a tent.

When Dorfman was a boy, he spent a lot of time fishing, sailing and canoeing near his family's farm in upstate New York. He disliked the inconvenience of transporting and maintaining a different boat for each activity, and the idea for a multipurpose boat was born.

Though trained as a naval architect in college, Dorfman, 46, spent several years producing films in Canada before returning to his first career. He designed his boat in 1981, but had no name for it until a Cuban rowing instructor who was testing the prototype made a suggestion in his "delightful accent," remembers Dorfman. The rowing instructor asked, "Why don't you call the boat the *Saroca?*"

"What in the world is Saroca?"

"Eh, dummy," replied the instructor, "sailing, rowing, canoeing!" The acronym stuck.

A group of investors liked the boat's concept and provided $200,000 to see if it really had a market. Dorfman and eight employes produced 200 fiberglass Sarocas and a small ad campaign that brought in 15,000 mail inquiries (and sold the boats already produced). But Dorfman and his investors disagreed on the next steps, and the company was dissolved. His idea for a multipurpose boat was not.

Dorfman decided to reorganize his company (named for its sole product, the Saroca) and perfect his boat before seeking financial backing again. First he gathered a team of experts in designing, manufacturing and marketing outdoor recreational products. He asked friend Johan Valentijn—designer of America's Cup challengers *Liberty* and *Magic*—to be president. Dorfman, as executive vice president, would oversee the company's daily operations.

Next Dorfman and his vice president of manufacturing decided they needed a more durable material than fiberglass for the Saroca. They found two plastics

Jan Dorfman (left) designed a boat that can be assembled in 20 minutes and can be sailed, rowed or used as a tent.

PHOTO: JACK SPRATT—PICTURE GROUP

that, when melted together, draped over a mold and put in a vacuum, form a material that is easier to mass produce than fiberglass. The new material also withstands hard knocks, and its color won't fade.

Dorfman found a custom molding plant in Knoxville to manufacture the Saroca's 24 parts—which, he says, can be assembled in as few as 20 minutes.

Saroca Corporation was refinanced last year. Dorfman had decided "this was not going to be a let's crawl, then walk, then run and then fly" operation. He wanted his company to be set up on a large scale and "come out running and flying."

It did. With $1 million from a new group of investors and another $1.4 million from the Small Business Administration and a private bank, Dorfman supplied the Knoxville plant with tools and molds, built an assembly plant and offices in Portsmouth, R.I., and started producing Sarocas. The first was exhibited last January.

The company now has a backlog of 1,500 orders. The basic 16½-foot Saroca retails for $2,195 and kits of accessories—for example, one that will turn the boat into a tent—are extra. Dorfman expects the company to gross $10 million in 1985.

Though Dorfman uses colorful brochures, magazine ads and sales reps to promote his product, his best marketing tool could be his Sarocathon, first held at a small boat show in Newport, R.I., in May.

The event is the nautical equivalent of the triathlon. Saroca dealers coordinate the event for teams to sail, row and canoe the boat over a measured course, and they sell Sarocas to excited spectators when the competition is over. Winners of the Sarocathon receive mugs, T-shirts and plaques.

Dorfman and his 40 employes are trying to convince heads of households that when they buy themselves a toy they no longer have to feel guilty about depriving the rest of the family of something. Because the Saroca is so versatile, says Dorfman, "Dad may want to use it as a duck-hunting boat, but with the addition of a sail or a rowing seat, the whole family can use it."

—*Nancy L. Croft*

MAKING IT

Harvesting The Fruits Of An Idea

"We said, 'Why not have an indoor arts and crafts fair, with artists as exhibitors, and charge admission?'"

The air is redolent with the tantalizing aromas of spicy Texas chili and fresh, piping hot corn bread. There are fortune tellers, tintype photographers, balloon vendors, face painters and a foot-stomping bluegrass band. All are a backdrop for hundreds of artisans—weavers, toymakers, woodworkers, quilters, puppeteers.

Welcome to the Harvest Festival, a traditional 19th century American country fair, the creation of entrepreneurs Steven Kyle, 42, and Warren Cook, 41. They have parlayed an initial investment of $100 into the largest traveling crafts extravaganza in the United States—15 shows touring 13 cities in four Western states—and become millionaires in the process.

The Kyle-Cook association began in 1966 with Cook's marriage to one of Kyle's sisters. (They have since divorced.) Both men thought it would be appealing to work together.

In 1972, the brothers-in-law decided to try producing food and wine festivals in San Francisco, with large corporations as major exhibitors. But corporations were not interested, and the festivals never came off. The partners, however, still liked the idea of doing some kind of festival.

"We were living in Berkeley then," Kyle recalls. The cultural diversity and interest in arts in the town made them think, "why not have an indoor arts and crafts fair with artists as exhibitors, and charge admission?"

The idea worked, and General Expositions Corporation was born. The first show the firm produced—the American Folk Arts Festival—was held at San Francisco's Brooks Hall in April, 1973 and drew 16,000 patrons. "We made a profit of $10,000 each," Cook says. They have yet to lose money on a show, producing 85 so far.

A lot has changed since that first show. The spring festival has been dropped. Sole focus is on autumn. "Sales are much more substantial during the pre-Christmas season," says Kyle. "Some attendees use us as a one-stop Christmas shopping center."

Admission has risen from $1.50 for adults and 50 cents for children to $4.50 and $2, respectively. Exhibitors are paying more for booth space—$270 compared with the $80 charged for the first show. The average number of booths rented per show is now 300.

Harvest Festival producers Warren Cook (left) and Stephen Kyle work out of a Victorian house in Petaluma, Calif.

PHOTO: GENERAL EXPOSITIONS

There currently are 13 employes, most of them family members. "It's nepotism at its finest," says Kyle. Headquarters is a restored Victorian house in Petaluma, Calif.

General Expositions expects its revenues to total $2.5 million—all from admission ticket sales.

To keep pace with mounting advertising, entertainment and food expenses, Kyle and Cook are embarking on an expansion program to reach 60 cities from coast to coast within 10 years.

Other plans include approaching corporations to act as festival sponsors, and a Harvest Festival catalog.

"This just started out as a lark, and look where it is," Cook marvels. "Lord knows where we're going to end up."

—*Mary-Margaret Wantuck*

MAKING IT

And Now— Designer Sausage

It has an old-fashioned taste but is made with federal regulations, nutrition and health ordinances in mind.

When the two Henton brothers crossed into Kentucky with Squire Boone in 1779 and established homes near the Falls of the Ohio, pigs pretty much ran wild and rooted for food between servings of brewery scraps and garbage they got from the settlers. Sausage was ground from by-products left from the autumn slaughter. Some was eaten fresh, and some was seasoned to be hung in canvas bags and smoked along with the hams.

Two centuries later, Evan Henton's great-great-grandson, Sanford Scearce, still lives in Shelby County and farms the land.

But in 200 years, hog marketing has changed, and Henton's great-great-grandson is parlaying those changes into "designer sausage"—whole hog breakfast sausage that is made with federal regulations, public nutritional concerns and health ordinances in mind, yet retains an old-fashioned taste, texture and look.

Modern market pigs are touted for their leanness. It is their hams and loins that make money, not the lard, as was the case in 1779.

But between the ham and the loin there is a lot of pork that doesn't carry a premium price. The Kentucky farmer gets about 40 cents a pound for a market hog, but whatever price he is paid, it is a lot less than what the consumer pays at the supermarket.

By making "Millstone Farms" sausage from the thousands of pigs he raises, Scearce can double the money he gets for his hogs, allowing him to shrink the distance between farming and the grocery store shelf, between wholesale price and retail dollar.

He admits he is working against the odds. Per capita pork consumption in 1984 (61.6 pounds) dropped lower than chicken consumption, and the U.S. Department of Agriculture predicts it will be lower this year (59.4 pounds).

And Scearce, who has raised hogs since 1972, when the average person ate 71 pounds of pork a year, says the bulk sausage market isn't much stronger. But this agriculture economics graduate of the University of Kentucky knows that when one producer goes out of business, he leaves gaps, and survivors move in to fill those gaps. Scearce plans to be a survivor. "We like to think of this as a premium sausage," he says of his product.

Sanford Scearce's old-fashioned sausage is finding a market among young consumers.

PHOTO: KEN TOUCHTON

The law requires whole hog sausage to contain meat from the loin and hams. But the pigs used for this sausage are typically older sows retired from breeding, which have more body fat than the young "market hogs" Scearce raises. Though most sausage makers don't make sausage with the legal maximum of 50 percent fat, many produce a sausage with 40 percent.

Scearce says his lean pigs produce a sausage that's about 35 percent fat—about 5 percent more than hamburger.

It's not just the "light" approach that makes this a sausage for the '80s. Scearce encases his sausage in a canvas-look wrapper that his great-great grandfather might recognize. For Yuppie appeal, there is a soft sketch of Millstone Farms, Scearce's home.

And while the seasonings used are nothing more than recognizable whole hog sausage seasonings (heavy with sage and black and red pepper), Scearce has assured himself designer-label recognition by rough-grinding the meat. His cooked sausage has a texture more like ground beef than the fine, homogeneous blends familiar in most whole hog sausages. "He has an outstanding product," says Bob Parker, meat merchandiser for Louisville-area Winn-Dixie stores.

Like other designer-label items, sausage production may be limited. Dovetailing the work of his laborers, Scearce can use just six people to work his crops, hogs, sausage and a business he started building heaters for use on hog watering troughs. Not having to hire additional labor "is one argument against getting bigger," he says.

But Scearce is getting bigger, despite his caution. "There has been an increase in sales every month since we started in 1984," he says. Besides 19 Kroger and 74 Winn-Dixie stores, he has shelf space in about 100 other independent stores, and he has to supplement his own hogs with some handpicked from local stockyards. Scearce projects sales in the range of $600,000 next year. Not bad for a year-old venture with a pioneer product.

—*Sarah Fritschner*

MAKING IT

A Golden Glow From Deep Tans

"Anything relating to vanity and health has a chance for a very good life."

Howard Leendertsen likes to tell how he parlayed a loan of $1,200 into one of the hottest businesses in a health and beauty conscious era—tanning equipment.

Leendertsen, 42, is president and chief executive officer of SCA Corporation, of Redmond, Wash., exclusive distributors of the West German-produced Wolff System tanning bed.

The $1,200 started out as a loan from Bob Jaffe, owner of Jafco, Inc., a San Francisco electronics and appliance store. Leendertsen, a college dropout, sold clothes in a men's shop, then worked as a rep for a consumer electronics firm in San Francisco, selling to electronics and appliance stores. He hoped to have his own business someday.

He was working part-time at Jafco when he suggested the company open an additional store.

Jaffe agreed, asked Leendertsen to run the store, and lent him the $1,200 so he could become a minority partner. "That was my big break," Leendertsen says.

Eventually, Jafco was sold. Leendertsen "received a very fine return for my $1,200."

That money was invested in a struggling radio station in Bellevue, Wash., and Leendertsen was working there as a general manager when a sales rep friend told him he had discovered the "perfect" product.

The product was an early version of the Wolff tanning bed.

Wolff makes a narrow bed containing special ultraviolet bulbs above and below the person lying on it. According to Leendertsen, the Wolff device tans the body evenly and naturally in 20-minute sessions.

Leendertsen flew to San Francisco to look, but, he says, "I thought my friend was nuts."

He tried it anyway.

"I lay there. It was soothing and relaxing. My mind was going a mile a minute. I began to realize that if it worked, it would not be merely an amenity product, it would be a profit center."

It did work. Leendertsen tanned, and after successive sessions saw that he was tanning deeply, evenly and without burning.

Howard Leendertsen's tanning beds have caught on with the beauty-conscious consumer.

PHOTO: WOLFF TANNING CENTER

He decided the product was safe, that Wolff had adequately protected its market with patents, and that federal regulations would not be a problem. He learned that sales of the equipment in Europe—largely to consumers—were brisk.

SCA was launched with a $67,500 nest egg in 1981. Leendertsen opened a tanning "solarium" in Seattle. Tanning was the only service offered.

"Within 30 days we were packed," Leendertsen says. "We had 140 people a day going through there." He says his customers represented every segment of society, and that he was especially successful in getting men to use the equipment, by showing them it was a "natural" process rather than a cosmetic.

First year sales were only $65,000. But sales reached $2.3 million in fiscal 1983, $9.5 million in 1984 and $30.3 million in 1985, for a compounded growth rate of 414 percent. Wolff says his firm is the fastest growing company in America.

SCA is the exclusive distributor of the equipment. It claims to have 40 percent of the U.S. commercial market for tanning equipment, which is installed in health and fitness centers, racquet clubs, hotels and motels and beauty salons.

Today promotional materials claim that the proprietor of a beauty salon, for example, can bring in an extra $20,000 gross a year by turning over 50 square feet to a Wolff System tanning bed.

Leendertsen predicts SCA will reach the $50 million sales mark this year, not including sales to consumers of home equipment just reaching the market.

During the early days, Leendertsen was salesman, janitor, everything. Today his company has grown to 244 employes, 12 regional offices and two quality control distribution centers.

"We are functioning in a look-good, feel-good era," Leendertsen says. "Anything relating to vanity and health has a chance for a very good life."

For the user, the Wolff System means a tan.

For Howard Leendertsen, it means a golden glow.

—Bob Gatty

PERSONAL/TO YOUR HEALTH

Breakfast On The Run

Too rushed to eat in the morning? You can combine speed and good nutrition.

By Phyllis M. Barrier

Breakfast is important for the reason the word suggests: We need to "break the fast" of our night's sleep and refuel our bodies for the coming day. Dozens of studies have shown that schoolchildren's performance improves markedly when they eat a nourishing breakfast, and there is no reason to believe that our need for a good breakfast declines significantly after we reach adulthood.

And yet, despite breakfast's importance, a recent survey indicated that almost 12 million Americans—one third more than five years earlier—skip breakfast most of the time. They offer reasons like these:

- Have too much to do in the morning.
- Would rather sleep longer.
- Are not hungry in the morning.
- Become nauseated when they try to eat breakfast.
- Are trying to control weight.

Time pressures probably account for much of the sharp increase in the number of breakfasts that Americans are eating out, particularly at fast food restaurants. Between 1977 and 1984, while the number of lunch customers rose less than 5 percent, the number of breakfast customers at restaurants shot up 57 percent.

Unfortunately, many of those breakfasts eaten out leave a lot to be desired nutritionally. For example, one breakfast of pancakes and sausage contains more than 600 calories—over one third of the daily calorie requirement for a normally active woman. Moreover, that breakfast is high in cholesterol, fat, sugar and sodium, is low in many essential nutrients and lacks fiber.

If time is your problem, avoid the fast food counter and try something that can be prepared quickly at home and that you can nibble as you get ready for work: cheese melted on toast, peanut butter (especially good when topped with a sliced banana or applesauce) on toast or English muffin; yogurt with fruit, or an occasional hard-cooked egg. If you can spare even 5 minutes to sit down in the morning, set the table the night before and have ready-to-eat cereal with sliced (or dried) fruit and low-fat milk.

Another possibility: a quick cereal that can be cooking while you dress.

If this still seems too time-consuming, or if breakfast does not appeal to you when you first arise, the solution may be to eat something on your way to work—peanut butter, egg salad or cheese on bread or crackers (or in a piece of celery), or a piece of fruit.

Some people believe that skipping breakfast helps them control their weight. It probably has just the opposite result. During the rest of the day people generally more than make up for the calories that they miss at breakfast.

But what if you are one of those fortunate people who like breakfast and have the time to prepare and eat a good one? What should you be eating—and not eating—to get the most out of your morning meal?

Breakfast should include both protein and complex carbohydrates. When only refined carbohydrates are eaten—a doughnut with juice, for instance—you may feel hungry again a hour or so later. Refined carbohydrates are digested and absorbed into the bloodstream very quickly. As our blood sugar rises, the pancreas responds with a release of insulin to lower the blood sugar. When the blood sugar is lowered, we feel hungry again. Proteins and complex carbohydrates take longer to digest and be absorbed, and so postpone hunger longer.

Complex carbohydrates include breads and cereals (hot and cold). Protein can be provided at breakfast by dairy products like milk, cheese and yogurt, or by eggs, meats, fish or poultry. Breakfast is also the ideal time to get your daily requirement of vitamin C, from a small glass of juice or from citrus fruit, berries or melon.

When choosing breads and cereals, try to get whole-grain products. When selecting ready-to-eat cereals, choose those with a low sugar content so that you (and not the manufacturer) are in control of how much sugar you consume. Choose dairy products that are lower in fat. The American Heart Association recommends only two eggs per week, since eggs are particularly high in cholesterol.

Traditional breakfast meats like bacon and sausage are considered fats rather than meats by most nutritionists; they are high in saturated fat, calories and sodium, and some contain nitrites, which have been linked to cancer. They should not be a regular part of your breakfast but should be saved as occasional weekend treats. ■

Phyllis M. Barrier, a registered dietitian, is a nutrition consultant and nutrition coordinator for a Washington area health maintenance organization.

PERSONAL/FINANCE

Many Happy Returns

Dismayed about declining yields? Don't give up.

By Ray Brady

It happens every time interest rates drop: Newspaper and television reporters talk happily about how mortgages will be more available to home buyers. Interviews appear with happy homeowners, who talk about how much they are saving on the monthly carrying charges on their homes.

But there is another, less attractive side to this interest rate coin. You can see it outside any commercial bank in almost any city. Simply study the faces of savers as they check out the bank rates being offered; some faces are as long as a banker's memory.

That is because the fat, double-digit interest rates of recent times are long gone. In one recent week, if you had a money market account at a bank, the chances were that you were getting a slender 6.99 percent return on your money, roughly four percentage points less than a year ago.

And what about regular money market funds—which, during one period, had investors rushing to get their high yields? That same week, what those funds were returning was enough to bring tears to a saver's eyes: 7.26 percent, the lowest in almost seven years.

What is more, many economists believe that interest rates of all types are going to keep drifting in the months ahead. Take Edward Yardeni, economist at the Wall Street investment firm of Prudential-Bache Securities. Yardeni has one of the best forecasting records on the Street. He says flatly: "The economy is in a kind of growth recession, and that means you are going to see rates going even lower."

So what does the investor do now, to lock in what rates are available? And where can he find investments that still carry a fairly high yield?

Ed Yardeni's answer: 30-year government bonds. Not only are they (as of this writing) yielding around 10.9 percent, which is still a pretty good return on your money, but there could be an added "kicker" in them. If Yardeni is right, and interest rates continue to fall, the price of government bonds will rise. (The interest paid on a bond is a flat amount; the rate of return goes up or down based on the price the investor pays—the lower the price, the higher the rate.)

Ray Brady is the business correspondent for CBS News.

U.S. savings bonds, long promoted by many companies—like Nabisco Brands, which produced this poster—offer a good yield plus security.

The investor in governments, in effect, could get two benefits for the same money. "I think," says Yardeni, "that we will see long bonds"—Wall Streetese for long-term bonds, such as those with a 30-year maturity—"at 9½ percent by the end of this year and 8½ percent by the end of next year."

If Yardeni is wrong, and interest rates go up, the price of those bonds will go down, and the investor will be hit right in the pocketbook. (An investment in a shorter-term bond would not be as risky but would not carry as high a rate of interest, either.)

That is what makes one financial planner cautious about telling his clients to invest in, say, tax-exempt bonds. Though they still look fairly attractive, they no longer give you the tax-free 10.5 percent return of last summer. And if rates should rise, and those prices drop?

"You can really get caught in a whipsaw," says this counselor, "if you go in at 8.5 percent or 9 percent, rates go back up, and you need to sell."

Some investors are looking closely at the mortgage-backed securities issued by the Government National Mortgage Association. Newspaper financial sections carry ads for Ginnie Maes, promising yields of 10.5 percent to 12.5 percent. Toothsome, indeed. But investors should be aware that although their interest will come in a monthly check, when interest rates drop some of that money may include funds from homeowners rushing to pay up their mortgages and refinance them at a lower rate of interest. Then too, Ginnie Maes can be called in at any time, so the holder who had been expecting many years of double-digit returns can suddenly find himself, instead, with his only return the return of his principal.

Still, investors keep searching for higher yields. As one indication of that, look at what has been happening to the sales of mutual funds that invest in bonds for income. In the first five months of this year, sales hit $20 billion; during the same period, investors bought a comparatively puny $4.6 billion worth of stock mutual funds.

One of the best bets is the U.S. savings bond. Buy bonds before October 31, and you will get a rate of 9.49 percent if you hold them for five years.

As you try to find that higher return, you might give some thought to why interest rates have come down.

Partly, the explanation is the vast change that has come over the American economy. The 1970s were an era of shortages—in almost everything, but particularly in oil—and that kept prices rising around the world. Now the opposite is true: The United States has a glut of everything from crude oil to electronic chips, slowing the economy and holding down interest rates.

Which could mean—if inflation stays low, and corporate earnings somehow do better—that the stock market could pick up in the future. Ed Yardeni says this could be a time to buy interest-sensitive stocks, such as utilities and brokerage houses.

You might keep in mind not only Yardeni's words about stocks, but also the opinion of Robert R. Prechter. He is editor of a highly respected investment newsletter. He says: "There may be as much as a 35 to 45 percent gain in the stock market by early 1986." ■

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Adding It All Up

To get that purple Cadillac, he put two and two together. What he discovered made him a multimillionaire.

By Del Marth

The eyes still glint covetously when he talks about it today, 36 years later: "There was this purple Cadillac car. A new one. I really wanted it."

But Leo G. Lauzen, only 26 then, knew the car was beyond his pocketbook. It had been an eventful year—he had taken a wife and dropped out of college—but it had not been a profitable one. His fledgling accounting service for small businesses, launched with $60 borrowed from his mother, was conducted on the kitchen table.

"Six clients, that's what I had," Lauzen recalls. "It figured out to a salary of 2 cents an hour." Nevertheless, the purple Cadillac obsessed him. He could handle the down payment, but the monthly installments of $200 were something else.

His mother, a Rumanian immigrant who spoke no English, was unsympathetic to his business venture—she had hoped he would become a priest—and to his love affair with the purple Cadillac.

But Mrs. Lauzen's boy recalls thinking: "Leo, if you were to get seven more accounts you would have the income to buy the Cadillac car." So he went calling on small businesses in his hometown of Aurora, Ill., doubling efforts to sell his accounting service. In two months he had those seven accounts.

An unforeseen hitch developed. Lauzen had not counted on his work load doubling; he had little time to drive the Cadillac.

"I decided there had to be a better way," he says. "I remember telling myself, Leo, if you get still another seven accounts you can hire a bookkeeper to do the first seven and also the second seven. Then you wouldn't have to push around those debits and credits yourself, and you would still have the money, and the time, for the Cadillac car."

He got seven more—and his purple Cadillac.

Today, leaning across not a kitchen table but a desk as wide as he is tall, the 6-foot Lauzen, chairman of Comprehensive Accounting Corporation, muses:

"I was really happy with that car. Man, was I happy with it."

Lauzen had a better reason, albeit unrecognized by him at the time, to be happy. To get his purple Cadillac, he had stumbled on a principle of franchising that would eventually make him a millionaire several times over.

Leo Lauzen says, "I feel terrific every day I come to work, because I know I am going to help a lot of people."

PHOTOS: T. MICHAEL KEZA

The principle, in the simplest of terms, is to hire people to do the technical and routine work while devoting your own time to increasing business.

Lauzen's little accounting service for small businesses, still based in Aurora, has become a franchise operation that no longer deals with clients itself but has sold 425 franchises throughout the country. The franchises serve more than 23,000 clients and take in more than $40 million annually.

Clients' fees average about $150 a month—the actual amount is determined by the size of the business and the number of checks it writes.

In return for the fee, the small business gets monthly an operating statement, a balance sheet, a bank reconciliation, a payroll register and a general ledger. At the end of the year, for an additional charge, the firm's tax work is done for it.

"By providing an accounting, bookkeeping and tax service for the small business, Leo found a niche in the American business scene that had largely been ignored or rejected," says Edward D. Muse, Comprehensive Accounting Corporation's president.

Says Lauzen: "I sometimes think my mission on earth is to help the small business person. Maybe that's because my father was in about 10 different businesses—popcorn concession, meat market, motorcycle repair shop, grocery store—failing at every one."

Today's small business, which Lauzen defines as doing less than $300,000 in annual sales and employing fewer than 10, has a failure rate that he finds

Adding It All Up

Lauzen says that he would love to be given an honorary doctorate; meanwhile, he tries to pass on to others what he has learned.

tragic. His firm's studies show 50 percent fail in the first four years, 65 percent in the first five and 85 percent in the first 10.

"When someone fails," says Lauzen, "instead of that person being just a statistic to me, that person becomes a tragedy. The failure means the family may lose its home. The parents often lose their self-respect, and even relationships with their children are damaged. There's a tremendous need to help these people succeed."

Through his accounting service, Lauzen thinks he can help head off many failures.

"The principal reason these businesses fail," he explains, "is not because the plumber isn't a good plumber—it's because the plumber is a lousy businessman. He doesn't know how to advertise, how to select employes, how to motivate them.

"And running a business includes the accounting end, which is typically a five-year budget. Not having such a budget is one of the biggest problems in small business."

"The most critical problems for small businesses," says Lauzen, "are within the owner's ability to control or correct. All the owner needs is better use of outside sources of information and counseling."

A survey of 203 owners of small firms (annual sales of $300,000 or less), conducted for Comprehensive by Research & Forecasts, Inc., of New York, reveals bad management (33 percent) as the primary reason for failures. Two other top reasons are also management-related—lack of experience (16 percent) and of owner dedication (16 percent). Inadequate capital is mentioned by 21 percent of respondents.

Asked to rank importance of sources of information in running their businesses, 61 percent cite their spouses, followed by accountants (51 percent) and bankers (41 percent).

"The spouse is always important in a husband-wife operation, but that person often is not the most qualified or objective source to turn to for advice," Lauzen says.

People who start businesses enjoy being their own bosses and see themselves as successful, the survey indicates. For example, 82 percent say the primary reason for going into business for themselves was to be their own boss, while 69 percent cite having more personal freedom as the most influencing factor. Seventy-nine percent say their business is either more successful than they expected or about as successful as they expected.

Lauzen's own small business grew quickly in its prefranchise period. By 1966, 17 years after its launching, it had 825 clients in a number of states. To service them, it had a staff of 25, principally accountants and bookkeepers.

Lauzen was on the go perpetually to achieve that growth.

Says Muse: "To Leo, work is fun. He takes work along on his family vacations. Sometimes he will take along some of the staff so he can sit on the beach or in the hotel restaurant and explore their ideas. We often wonder if he ever shuts off his motor."

But growth can create problems, Lauzen learned in 1966.

"Four chains of command had built up between myself and the clients," he says. "Quality of work dropped." To the meticulous Lauzen, that was unforgivable.

About the same time, independent accountants were approaching him, asking to rent his accounting system and to be sent clients in exchange for a percentage of the profits.

Lauzen decided to experiment. He distributed his accounts equally between his staff and outside accountants. With the outsiders, he says, "I was practicing franchising and didn't know it."

He discovered, not unexpectedly, that the outside accountants each year lost fewer clients and had a higher referral rate than his own staff. Because they were their own bosses, the outsiders gave clients better service. By the mid-1970s, Lauzen was convinced he could reach more small businesses, and provide better quality service, if he franchised all his accounts. Accordingly, he sold his in-house clients to his staff accountants for $1 million, payable over a period of years.

"Now that my accountants also had their own clients and businesses, I noticed they no longer tried to beat the secretaries out the door at 5 p.m.," he says.

Using as collateral the $1 million in notes receivable from the sale, Lauzen got financing that enabled him to plunge into total franchising.

It was 1976, and Lauzen recalls that he was truly revved up, drinking pots of coffee, smoking little black cigars by the boxful and living his job. Then the motor that never seemed to shut off sputtered to a near stop.

"The day we moved into our new two-story headquarters, in 1977, I had a heart attack," Lauzen remembers. "The first thing I thought was: My God, what's going to happen to the business?" That, he explains in an aside, "is the nature of the entrepreneur."

That "nature" had broken up Lauzen's marriage years earlier. But he had remarried.

After recovering from his heart attack, he recalls, he told his wife, Diane: "I have a terrible thing I must tell you. My first thoughts during my heart attack were about the business, though I should have thought of you and the children. [He has six children, four by

his first marriage.] She said she had known that about me for a long time."

Lauzen nowadays scurries around the office with a pacemaker in his chest. He has taken himself off coffee and cigars. Also, he naps for an hour each afternoon on his office couch.

"His secretary guards the door," says Colette M. Hessenauer, vice president of marketing and communications and a Lauzen associate for 22 years. "Leo is hard driving and dedicated to winning at everything. Whether at work or playing tennis or gin rummy, he hates to lose."

He has a long winning streak going with Comprehensive Accounting Corporation, which he owns solely and which has a net worth of $7.5 million. Its franchisees pay an initial fee of $70,000 (plus a 3 percent royalty the first year, and 12½ percent after that), for which they are given training, use of Lauzen's accounting system, national advertising, continuing expert advice if growth falters, and use of a central computer system in Aurora.

Larger franchisees send clients' fiscal data into the system, which digests the information and spits out a set of completed monthly books for the client. Easy-to-understand color charts and graphs display current sales, expenses, profits and other pertinent information, including year-to-year comparisons.

"Our typical franchisee, in business five years, makes $50,000 in cash annually plus another $50,000 in equity growth," Lauzen says.

Pretax profits for Lauzen are pegged at $2.5 million this fiscal year, up from $1.4 million last year. But added millions mean less and less to him.

"When a person becomes a millionaire, he adjusts to a whole new set of values. You ask yourself what is the purpose of life. You get up in the morning, you eat, you work—for what reason? It certainly isn't to make more money; that's reducing ourselves to just being pigs. It is helping your fellow man. I feel terrific every day I come to work, because I know I am going to help a lot of people."

Just living has special meaning to Lauzen; since his heart attack, he has worn a fresh boutonniere daily in celebration of another new day.

He envisions that on one new day a college will say, "Leo, we're ready to give you an "honorary doctorate. You've earned it, in the marketplace."

That, says Lauzen, is "one of my hopes for the future."

Another may come true this fall for the son of Rumanian immigrants—Lauzen has been approached by the ambassador from Rumania to lecture at the University of Bucharest on "small and medium-sized entrepreneurship."

In order to raise living standards, some communist countries are thinking of experimenting with individual small enterprise, "if they can do so without compromising their ideology," Lauzen notes. He says that he "has the gift of helping small business, and I believe I could help the country of my heritage."

Lauzen beams. "That," he says, "would mean more to me than did that purple Cadillac car." NB

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Should Military Reprisals Be Used To Fight Terrorism?

The TWA airliner skyjacking is an ugly reminder of risks to which American citizens and property abroad are exposed. Terrorists are resorting to kidnapping, extortion, murder and bombing with growing frequency. The outcome of the national debate over measures to combat terrorists is important to business, because U.S. companies, their employes and their property are potential targets. Some people say that credible deterrents must include the use of force. Others say that would invite revenge and make the problem worse. Do you favor military retaliation against terrorists?

2. A Federal Law To Curb Business Takeovers?

A rash of well-publicized corporate takeover attempts has made household terms of "white knight" and "greenmail," used respectively to describe "friendly" buyers who come to the rescue and payoffs to "unfriendly" ones. Some people say that unwanted takeovers hurt the economy, and Congress is considering bills that could make them more difficult. But such federal legislation could pre-empt the states' longstanding right to regulate corporations. And critics say shareholders benefit from takeovers because they frequently boost stock prices. Should federal controls be imposed to make unfriendly takeovers more difficult?

3. Reform Medical Malpractice Laws?

Many patients regard doctors as deities and think that modern medicine can cure everything. Such high expectations are leading juries to award big judgments in medical malpractice cases even when negligence has not been proved. The price of doctor's liability insurance is skyrocketing, and this is costing businesses plenty. Of the $100 billion spent yearly on employe health insurance, up to $14 billion goes for "defensive" medicine—unnecessary tests done as a defense against possible lawsuits—and to pay for physicians' malpractice coverage. Others disagree. Should we have a more balanced medical liability system?

Verdicts On Insurance, Taxes, Education Benefits

Here is how readers responded to the questions in the July issue's Where I Stand poll.

	Yes	No	Undecided
Should businesses be required to provide health benefits to divorced spouses of employes, or lose their tax deduction for contributions to employe health benefit plans?	6.4%	92.6%	1%
Should graduated federal income tax rates be retained for small businesses?	69.8%	20.3%	9.9%
Should the tax incentive for employe education be retained beyond the end of the year, when it is now scheduled to expire?	72.9%	23%	4.1%

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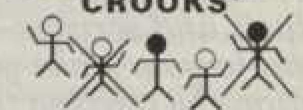

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Turn to Page 84 for more Classifieds

DIRECT LINE

Here's The Answer

Exports To India

I read your story about exporting to India ["India Opens Its Doors," July], and I am interested in learning more about export opportunities in India and Pakistan. Can you tell me where I might find help?
D.G., Seattle

Contact Richard Hardy or Christine Coady at the International Trade Administration in Washington about prospects in India. They can be reached at (202) 377-2954. For Pakistan, call Stan Bilinski at the same number.

Help With Help

I operate a small video store and have experienced a consistent problem finding and keeping reliable help. One young man (an Explorer Scout!) ran off with $1,000 in cash and merchandise. Another, left in charge on a Saturday, just decided to close the store and go to the beach. Where can I get help I can depend on?
H.E., Atlanta

You might try hiring older retired persons who would at least work part time. Other employers have discovered that older workers tend to be more responsible and more regular in their work habits, lose less time for illness and are grateful to have a job. They also are apt to have fewer social distractions or family problems. The American Association of Retired Persons maintains lists of older citizens who would like work. The chapter in your area would be a first contact.

Vive La Difference

I am thinking about hiring an advertising or public relations firm, and I realize that I do not know which to use. What is the difference?
P.F., Chicago

"That is the question potential clients most frequently ask," says Diane Shrago, a vice president of S&S Public Relations in Northbrook, Ill. "Simply stated, advertising enables you to have total control over what is said in an ad and where it is placed—for example, in the food section of a newspaper or the evening news broadcast. Public relations, on the other hand, produces publicity in the form of stories in newspapers, magazines, television or radio, and there is no charge as there is for an ad. But you have no control, obviously, over what is said in such stories.

"Also, public relations can save the image of a company in a crisis situation.

"Advertising and public relations campaigns, well planned, can complement each other and can have a direct effect on image and sales of a company, product or service."

The Cost Of Fitness

I read with interest your article on fitness ["How Fitness Works Out," July]. One question I have for you is, what does it cost the employes of Manningtion Mills, Inc., Conoco, Inc., and Xerox Corporation to use the fitness centers provided by their employers?
F.H.D., Columbia, S.C.

None of these companies charge employes to use their fitness centers. They regard them as both a benefit for the employe and an investment in the better health of their companies.

Banned In Japan

Do the Japanese ban foreign lawyers from practicing in their country?
S.G., Los Angeles

No, but the regulations are almost prohibitive for foreign lawyers. Fewer than 2 percent passed the Japanese bar examination in 1983.

Many American lawyers advise clients in Japan but work through Japanese lawyers to process necessary paper work. The Reagan administration is pressing for greater access for American lawyers.

How To Ask

Have a business-related question you need answered?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

CONGRESSIONAL ALERT

Issues That Affect You

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Appropriations	Congress provides money for the operations of federal departments, executive agencies and other administrative units through the annual appropriations process. This process also gives Congress an opportunity to reduce federal spending. In recent years Congress has failed to complete work on many of the 13 regular appropriations bills by the October 1 start of the fiscal year, thus leading to a continuing resolution that funds hundreds of programs without their being subjected to individual scrutiny.	Members of the House and Senate: Congress should agree on spending amounts for each of the 13 regular appropriations bills before the start of a new fiscal year. Do not put upward pressure on the federal deficit by providing unnecessary funding for new programs or wasteful old ones.
Tax Reform/ Simplification	Hearings continue in the Senate Finance and House Ways and Means committees on the various tax reform proposals. The administration's overhaul plan, as well as similar congressional proposals, would eliminate special tax breaks to allow overall individual and corporate tax rates to be lowered.	Members of the House and Senate: Carefully consider any proposed changes in the current tax law. Tax reform should stimulate capital formation, encourage technological innovation, enhance international competitiveness and help create jobs.
Grove City	Legislation has been introduced that would overturn the 1984 *Grove City v. Bell* Supreme Court ruling that limited application of civil rights statutes to educational institutions receiving federal funds. One bill would subject business to new affirmative action rules and encourage private lawsuits.	Members of the House and Senate: Support the administration's alternative bill for simple reversal of the Supreme Court's *Grove City* decision. Oppose broad expansion of federal regulatory authority under the guise of reversal.
Superfund	The current five-year, $1.6 billion toxic waste cleanup program expires September 30. The major debate is over the funding level and the method used to raise revenue for Superfund. Businesses will be affected by taxing authority used to clean up hazardous waste sites.	Members of the House and Senate: Reauthorize the Superfund at reasonable funding levels. The Superfund should be structured to meet cleanup goals without unnecessary expense. General revenues should be the primary source of funding. Oppose any new or increased taxes for Superfund.
Comparable Worth	Comparable worth legislation is moving quickly through Congress. Several bills have been considered in both houses that would require a comparable worth evaluation of the federal work force—a value would be determined for each job based on a subjective point system.	Members of the House and Senate: Oppose comparable worth legislation that could open the door for replacing marketplace determinants in the private sector. Implementation of the unsound and market-disruptive concept of comparable worth would be a serious error.
Product Liability	Hearings have been held in the Senate on legislation that would replace widely differing state product liability laws with a uniform federal statute. Robert W. Kasten (R-Wis.) is sponsoring a bill that would lower consumer prices by eliminating legal expenses and excessive product liability insurance costs.	Members of the House and Senate: Support concepts contained in Sen. Kasten's bill that would establish uniform rules applicable in product liability cases in state and federal courts.

TECHNOLOGY

The Write Stuff

By Howard Schneider

Ron Shaw, executive vice president of Pilot Pen Corporation, says that today's pens are more varied and of higher quality, offering consumers more choices of writing instruments.

Pen and pencil sellers are gleefully saying that reports of their industry's demise are greatly exaggerated. "I'll be 6 feet under before the paperless office is here," says Jim Miller, president of Miller Business Systems in Arlington, Tex. Miller, 55, owns several office supply stores and manages a sales force that handles 8,000 corporate accounts. "In the last three years," he says, "we've gone from $8 million to $40 million in sales."

Three or four years ago people like Miller would have discouraged a newcomer to the business from selling products such as columnar pads and writing instruments, which were viewed as office dinosaurs in the computer era.

No more. "Writing instruments aren't a dying market," Miller says. Although computers are important office tools, the information revolution is not banishing traditional office products.

As a sign of the changing office, suppliers note that 3M Corporation, famous for Scotch transparent tape, now sells more Post-It adhesive notes. The notes may be getting stuck to computer printouts, but pens and pencils are still needed to write on the notes. Manufacturers, wholesalers and retailers are finding new ways to keep their revenues growing in a rapidly changing market.

Industry observers expect the office products market to hit the $200 billion sales mark by 1990—up from less than $40 billion in 1977. Why? It is not news that most of today's new jobs are found in offices. Service and information, not manufacturing or agriculture, are the economy's growth areas. The Bureau of Labor Statistics estimates that the number of white collar workers, 38 million in 1970, will top 60 million by 1990.

Office supplies' share of the market has been dropping, however, from 39.5 percent in 1977 to 30.8 percent in 1982, a period in which overall office products shipments doubled, according to the National Office Products Association. And within that office supplies segment, top growth honors went to computer ribbons, not pens or pencils.

Howard Schneider is a Virginia freelance writer.

PHOTO: WERNER WOLFF—BLACK STAR

But growth is still possible for writing instruments. Pencil sales from 1981 to 1983 rose more than 40 percent, to 1.55 billion units, according to the Commerce Department. The Writing Instrument Manufacturing Association says pen, marker and mechanical pencil sales hit a new high of more than 3.4 billion units in 1984.

At the same time, competition among manufacturers has been growing, too. WIMA figures note that selling prices actually decreased from 1980 to 1984 for most pens and mechanical pencils. Increases over the four-year period were found only for fountain pens (a tiny part of the market with an increase of more than 5 percent) and felt-tip pens, which appreciated just 5 percent in price.

Still, no one is complaining about being squeezed. Wholesalers and retailers agree that profit margins built into pens and pencils are higher than average for retail products. Cost pressures are felt more acutely by the manufacturers, who lower prices as a means to encourage wholesalers.

Pen and pencil makers are developing new products to reflect changes in personal taste and work habits.

In fact, points out Leah Colihan, public relations manager for BIC Corporation, the computer has created new sales opportunities for BIC—"Last year, we introduced a fluorescent marker for highlighting text. This pen is in wide use even if you sit at a desk all day and generate computer printouts. People who use computers use these pens extensively. These highlighters were once used mostly by students, but are now finding wide use in offices. It's a good example of a writing instrument that has come on the market, or whose sales have grown, because of computers. It hasn't been supplanted by them."

Colihan reports that 1984 sales of BIC, a French-owned company based in Milford, Conn., reached $86.4 million, a strong 13 percent increase over the previous year.

One reason for the general increase in sales of pens, she says, is the many types available to meet specific needs, like the highlighters. "Twenty-five years ago," Colihan says, "a person

Word processors have replaced pens for many functions, but the market for writing instruments is growing, not drying up.

might have carried one ballpoint pen and that was it. Today, because of people's needs, there is a variety of writing instruments.

And, she says, "writing instruments continue to allow you to express yourself in a personal way that a computer cannot. To send or receive a hand-written note is much more special than a computer-generated letter ever could be."

The Blackfeet Indian Writing Company, started by the Blackfeet Tribal Council to provide jobs on the tribe's Montana reservation, is taking the highlighter one step further. The "2 'N 1" highlighter pen has a marker at one end, and a ballpoint pen at the other for writing in the margins of highlighted reports.

Technological improvements have helped to lower prices. "If you bought the first ballpoint pen in 1946—the Reynolds pen—it would have cost you \$15," says Ron Shaw, executive vice president of the Pilot Pen Corporation of America. "But today's cheapest ballpoint pen at under 50 cents has 10 times better quality."

Despite the emergence of felt tip pens, plastic tip fine liners and roller ball pens, the traditional ballpoint has survived. But Shaw notes "you're probably writing with a different kind of pen than you were five or six years ago." Offering consumers more choices gives writing instrument manufacturers new ways to gain market share.

Pilot has built its presence in the pen and pencil market by developing new products and improving the tone of its marketing muscle. Over \$4.5 million was spent on advertising last year, or slightly more than 10 percent of sales. A sales staff of 164 calls on wholesalers, offering international incentive trips along with the pens. Sales incentive trips and "spiffs," or extra commissions passed on by the manufacturer, encourage wholesalers to push a product, Jim Miller says.

Yet there are other ways to approach the market. The Blackfeet company finds niches it can occupy in the marketplace without competing head-on with larger firms. "We're looking for unique applications for our products," says Bill Oswald, marketing vice president for Blackfeet, which had \$6.3 million in sales last year. One pen that has found a niche is the "Short Shorty," a 3½-inch pen popular with women and children. Offered by Blackfeet's Lindy pen subsidiary, the Short Shorty comes in "fashion colors," including turquoise, lavender and avocado.

Although their use has dramatically declined, fountain pens still have their admirers.

PHOTO: T. MICHAEL KEZA

Also bolstering Blackfeet's retail presence are point of purchase stands showing part of a Frederic Remington painting of an Indian galloping on a war pony. "The Indian orientation attracts attention," Oswald says, "and then we keep them with a quality product."

The Blackfeet company is pursuing the retail market rather than the wholesale market because corporate purchasing agents, buying in bulk, insist on the lowest cost. Smaller firms like Blackfeet usually cannot compete as well on price for those high-volume, low-margin sales.

"Point of sale is very important, both for organization and looks," agrees Harvey Greenberg, president of Pens Plus, a North Hollywood, Calif., distributing company. He adds that three factors largely determine what pens and pencils are bought by consumers: point of sale packaging, innovative products and manufacturers' advertising.

Most of the innovative products are coming from overseas. "Like the car industry," says Blackfeet's Oswald, "U.S. pen and pencil companies are playing follow-the-leader to foreign firms." Pilot and Pentel are subsidiaries of Japanese companies, and BIC is French-owned. Pen imports exceeded exports for the first time in 1984. "It shocked people," says Oswald, "because for years the American pen was the standard in the world."

"If you have a new product, it gives your salespeople something to say," explains Jim Miller. He notes that manufacturers who are neglecting to develop new products are losing market share.

But there are risks in bringing out new products, including costs of research and development, retooling and marketing. Manufacturers have learned some expensive lessons from products that have not caught the public's fancy. Many smaller companies do not try to develop new products. "Unless it's a novelty item, a larger company can jump in and grab the market with a greater promotional budget," says Bill Oswald.

He says Blackfeet waited until the market for roller ball pens was established before bringing out its Buffalo Ball. The market is expected to grow almost 20 percent annually for the next 10 years. However, Harvey Greenberg of Pens Plus says a "me-too" product needs to have excellent quality to take part of the market away from the originator, as did the Buffalo Ball.

Technology is not new in the pen industry. Antique fountain pens, worth up to \$5,000 today, often had several patents each on their mechanisms. Collectors enjoy comparing such pens' inner workings.

Just as the computer has not eliminated older writing instruments, innovative pens have not erased the fountain pen. The fountain pen's market is not what it once was—"If I had to live off that market," says a manufacturer's salesman, "I'd end up washing dishes in a restaurant or setting up pins in a bowling alley"—but sales last year were \$39 million. That was four times sales a dozen years earlier. NB

Editorials

The responsibility to be fiscally responsible; a new occupant of a key job; entrepreneurial couples.

To Love, Honor And Run A Business

Critics of business often complain that it lacks the drama and emotion of other fields of endeavor. No one would hold that view very long after reading our cover story in this issue.

It's about marriage partners who are also business partners—husbands and wives who are running businesses together. Their stories show how they bring a special unity of purpose to their companies, how their marriage and business relationships can complement each other but can also cause problems, and how entrepreneurial couples can be particularly vulnerable to family tragedies.

The rapid expansion in the ranks of these couples is a dramatic example of how the variety and flexibility of the American business world enables it to accommodate the changes in the society it serves.

No Way To Play In This League

PHOTO: ROBERT KAUFMAN—BLACK STAR

After his foundering team turned in a particularly inept performance, legendary baseball manager Casey Stengel asked a locker-room meeting: "Can't anybody here play this game?" The question and the circumstances that prompted it are called to mind by the score in this year's Congress-vs.-the-Deficit competition. At this point, the deficit is ahead from $170 billion to $200 billion, depending on how much faith one places in the budget resolution Congress enacted as it left the field for a midseason break.

Red ink will flow because Congress remains unwilling to go to the heart of the problem—the big-spending entitlement programs that will continue to skyrocket federal spending until they are curbed.

At the outset of the 1985 congressional session, rolling back the deficit was viewed as the top priority on Capitol Hill, and enthusiasm for meeting the challenge ran high.

But the drive for genuine restraints on red-ink spending broke down amid partisan disagreement over what should be cut and what should be spared. Too many players were more interested in their individual performances than in a team effort.

Who is responsible for the failure to follow through on the clear signal from voters in the 1984 election that they want fiscal discipline?

Despite the cross-fire of charges and countercharges over blame for the failure to meet deficit-reduction goals of the magnitude envisioned earlier this year, members of Congress cannot escape the fact that the Constitution gives them primary responsibility for fiscal policy.

The President can propose spending levels and veto those he considers excessive, but he cannot make the basic decisions on the size of each appropriations bill, nor can he make the statutory changes necessary to save money by revising programs.

Upon their return from their summer recess, the lawmakers must address the deficit problem with the seriousness it deserves.

Otherwise, the question of whether anybody here can play this game will soon be coming from the voters.

A Team Player Has Stepped In At OMB

As chairman of the Federal Trade Commission, James C. Miller III was frequently accused by his critics of being too favorably disposed toward business.

Asked about such charges in a Nation's Business interview, he replied, "If I have a bias, it's toward less government, rather than more."

In his post at the commission, he applied that philosophy in eliminating excessive government regulations that were penalizing business without benefiting consumers.

"What we need," he said, "is a good dose of common sense. . . . Anytime you can make the economy work better, everybody benefits."

Those views should serve Miller well in his new post as director of the Office of Management and Budget.

President Reagan made an excellent choice in naming him to replace David Stockman in that strategic position. He is an economist who has held various jobs in the federal government and, as executive director of President Reagan's Task Force on Regulatory Relief, was in the front lines of the Reagan revolution.

There are additional reasons why the President acted wisely in selecting Miller to be OMB director. It is widely assumed in Washington that Miller will have a low profile and that he will be a team player.

Events of the past year have shown that much remains to be done to achieve the President's goal of getting federal spending under control through fundamental change in the role of the federal government. Miller's experience, basic philosophy and commitment to the Reagan program will make him a strong addition to the presidential team struggling to achieve that end.

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